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❖ ❖ ❖ CONTENTS ❖ ❖ ❖

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What About Rents

By Delbert S. Wenzlick

In this article, Mr. Delbert S. Wenzlick, President, Real Estate Analysts, Inc., gives us a perspective on the long term trend of factors directly influencing the value of real estate. Appraisers everywhere will be keenly interested not only in this able article on problems with which they are all concerned at the present time but also in the constructive work which Real Estate Analysts, Inc., are attempting.

Philip W. Kniskern.

FOR several years I have been becoming more and more convinced that further attempts to improve the technique of determining *market* value or *price* of real estate would be almost futile. At best, such attempts are merely interpolations between sales of somewhat comparable properties and indicate only what a fickle public, optimistic or pessimistic, may pay. In the case of securities, market prices are being constantly and automatically determined through trade on the stock exchange. A share of A. T. & T. stock sold in October, 1929 for $310.00. That same stock sold for $70.00 in the summer of 1932. The public's confidence or lack of it is reflected in these ridiculous price fluctuations. Such prices do not indicate value in its true sense.

If it is assumed that securities or investment properties are held primarily because of their income producing ability, then it should follow that their true value should be determined by capitalizing the net income to be realized during their useful lives. If we were able accurately to forecast this net income in its recurring ups and downs, the problem would be simple. Whether we do it accurately or inaccurately, however, net income *must be forecast* and capitalized in any appraisal which has as its aim the establishment of a true or investment value. It seems to me that the determination of that kind of value is the only task that is worthy of the efforts of the conscientious appraiser of the future. The question of market price will, I believe be eventually left entirely to the broker.

If the appraiser must forecast income, how is he to do it? Nearly three thousand years ago, Confucius said "If you would forecast the future, study the past." I am sure this wise old philosopher did not intend that this statement was to be interpreted as a reference to some immutable law whereby history always repeated itself in exactly the same way. I am sure he did mean to convey the idea, however, that cause and effect are definitely related and that causes, properly identified and valued, could be depended upon to produce definite effects. In very few lines of endeavor has as little effort been devoted to the study of cause and effect as has been the case in the field of real estate. In no field, however, is such study as important and necessary.

What about rents? When I mentioned this subject the other day one of my listeners said under his breath, "If any." Undoubtedly the downward trend of the past few years has given many a property owner and mortgage holder a headache. Could this decline have been forecast in 1923? Could the upward trend have been forecast in 1918? What about rents *today*? Let us follow the advice of Confucius and

see what may be learned from the past.

What Is Rent?

In the first place, *what is rent*? I think we may agree that it is a valuable consideration usually expressed in money given in exchange for the use of valuable facilities or privileges afforded by land or a combination of land and structures. What qualities tend to give value? Perhaps the most important are desirability and scarcity. Desirability alone does not indicate value if scarcity is not also present. The air we breathe is desirable but not scarce; and we do not value it until it does become scarce. Scarcity does not indicate value unless it is also accompanied by desirability.

We must admit that shelter from the elements is desirable. In fact, it is one of the necessities of life. Ownership of land in excess of individual needs resulted in the granting of privileges of use to tenants for a consideration called rent. These privileges of use usually included the use of structures and were found to be more valuable where the demand was greater than the supply and less valuable where the supply exceeded the demand.

Increasing congestion in cities made it difficult to estimate increasing demand accurately; and excess construction resulted. An oversupply naturally affected values unfavorably through the elimination of the element of scarcity. The tenant was quick to take advantage of such a change in value and that is what is troubling the property owners today. Evidently the law of supply and demand has much to do with what we call rent.

Are supply and demand the only factors which affect rent? They might be if rent were not generally expressed in terms of money. The value of money also reacts to the factors of desirability and scarcity. Its buying power varies widely and necessarily its behavior is also of great importance in our problem of forecasting rent.

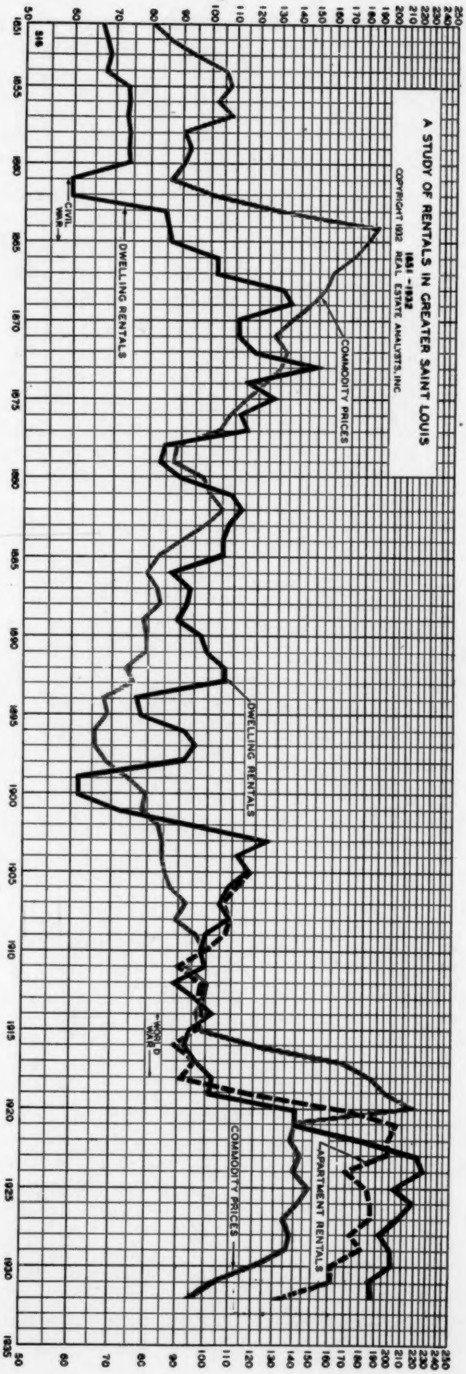
A Unit of Measurement

We become conscious first of effect, then look for the cause or causes. Let us, therefore, consider rent expressed in money as an effect. Let us consider it in its largest possible aspect, i. e. housing. Let us consider it in the abstract as far as possible, as an index. Let us accept a room as a unit, not a particular room nor one of a group of particular rooms because in studying trends over long periods various disturbing factors such as obsolescence, depreciation, and changing neighborhoods would be included, but a room as representing an average or cross-section of all rooms offered for rent.

Thousands of classified want-ads in our daily newspapers provide a very practical and satisfactory source of data for this purpose. In Chart No. 1 the heavy black line indicates the fluctuation in dwelling rentals in Greater Saint Louis from 1851, ten years before the Civil War, to May 1st, 1932. This information was secured in the following manner: Bound newspaper files were obtained as far back as numerous classified advertisements of dwellings for rent could be found, single family dwellings being studied back to 1868 and apartments to 1906. Separate studies were made for single family dwellings, for flats, and for apartments. All advertisements were reduced to the common denominator of rent per room per month.

Several questions may be raised as to the reliability of a barometer constructed in this fashion. First: Do advertised rentals represent actual rentals? It must be freely admitted that there are certain limitations in a barometer of this sort. In a period when rentals are dropping rapidly, concessions not mentioned in the advertisements (generally in the form of the

CHART No. 1


A STUDY OF RENTALS IN GREATER SAINT LOUIS
1851 - 1932
COPYRIGHT 1932 REAL ESTATE ANALYSTS, INC
COMMODITY PRICES
DWELLING RENTALS
CIVIL WAR
WORLD WAR
APARTMENT RENTALS

twelfth or thirteenth month free on a year's lease) are frequently given. In an extreme period of rental deflation, actual rental will probably average close to 8% below advertised rental. On the other hand, when rents are increasing, no concessions are given and actual rentals and advertised rentals are the same. Second :Do advertised rentals of vacant quarters form an index of rentals being paid for occupied quarters? In apartment rentals there can be no question but that the relationship is very definite. An owner cannot well offer quarters in a building for rentals different from those he is actually receiving for similar quarters in the same building without sooner or later being forced to equalize his rentals. In single family residences and flats this comparison is not possible. Since 1917 the U. S. Department of Labor Statistics has maintained a barometer of rents for Saint Louis. It is rather interesting to note the general similarity of their barometer to ours, even though the Department of Labor Statistics barometer covers only the homes of working men's families. The drop from the peak to the present on both barometers is almost identical. It can therefore be assumed that the single family dwelling barometer prepared in this way is also substantially accurate.

A study was published in 1886 in the 10th Census of the United States, of rentals from 1851 to 1880 in five principal cities in the United States, of which Saint Louis was one. It was possible from this study to extend our figures back to 1851, having an overlap of twelve years with the classified advertising for the period 1868—1880.

Apartment rentals (heat included) are charted separately since 1906, as they have shown considerable variation from other rentals. Flat rentals are not shown on this chart as they are very similar in their fluctuations and in their "dollar per month room" value to single family dwelling rentals.

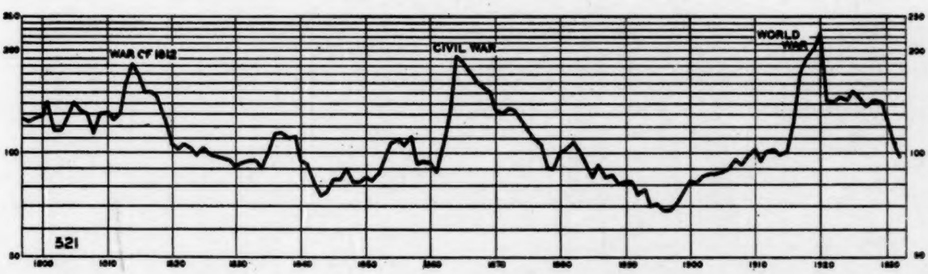
The Value of Money

What part does the value of money play in rent? The best index of money value available is the commodity index. The value of money may be said to vary inversely with commodity prices. The shaded line in Chart No. 1 is an index of commodity prices. The general relationship of rents to commodity prices on this chart is clearly apparent. It should be noted, however, that at the beginning of the period covered by this chart, the commodity index is considerably above the rent index and that there has been a consistent tendency of the rent index to rise above the commodity index. This tendency is probably the result of several factors. First, the constantly increasing burden of taxation placed on real estate. Second, the successful efforts of organized labor in maintaining high wages, both in the field of construction labor and also in railroad labor, which reflects itself in higher building material cost. Third, but by no means unimportant, are the demands of higher standards of living for more convenient and, consequently, more costly living accommodations. This factor is amusingly illustrated in many of the rent ads studied in the preparation of this chart. In 1851, for instance, a hydrant in the yard was important enough to be advertised as a special advantage. In the 60's, the hydrant had moved to the kitchen. The 70's saw gas lighting mentioned frequently in the ads. During the 80's and 90's modern plumbing and heating added considerably to the cost of residential building, followed by electric lights, water heaters, garages, and electric refrigeration. The end evidently is not yet, as air conditioning is now appearing over the horizon.

Contrary to the effect on rents of increasing taxation, high wages, and

improved building, commodities have declined in cost due to mass production and more efficient distribution. It would seem that rents need not be expected to drop back to their former relationship to commodity prices.

CHART No. 2
Trend of Commodity Prices (from 1797 to 1932)



Influence of Wars and Public Debt

Chart No. 2 shows the fluctuation of commodity prices from 1797 to date, and indicates very clearly the effect of public debt contracted to pay for the waste of wars. The wide and regular fluctuations shown on this chart and the reciprocal action of money value emphasizes the importance of money value fluctuation on rents. This factor is particularly important following wars. In such periods, the value of commodites falls rapidly and the value of money rises accordingly.

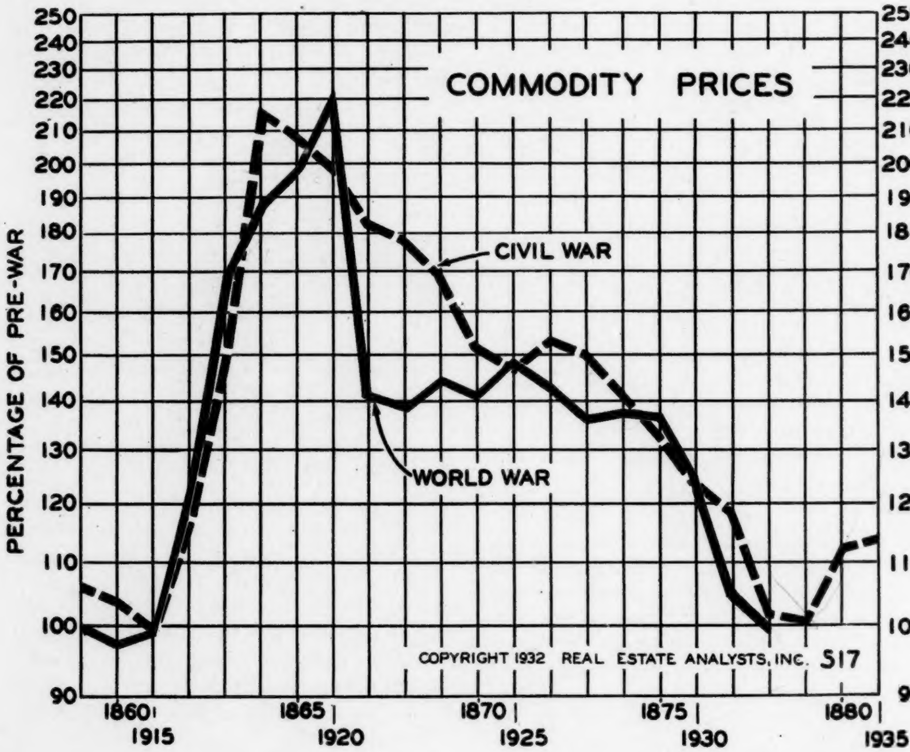
The similarity of the behavior of commodity prices following the Civil War and the World War is clearly apparent on Chart No. 3. In this chart, pre-war prices have been charted, as 100% in both cases. There is not sufficient space at this time for a discussion of the causes of this similarity but from numerous studies and comparisons that have been made, there is no reason to believe that the behavior of this factor will be different in the next few years than it was in the period following 1879. Undoubtedly there will be some increase in commodity prices very soon and this increase probably will be maintained for several years, but it also seems certain that a subsequent decline will bring this index down again to somewhere near its pre-war level. With the exception of this hump, which should develop during the next few years, and eliminating consideration of any effects of possible but not probable major disturbing influences, it would seem that the value of money will be fairly stable for the next thirty or forty years at about present levels. In view of the unusual fluctuations of the past seventeen years, it is highly important that we do not anticipate a return to wartime prices.

If money values will not again show the fluctuations of the period just past, rents will then depend largely upon the relationship of the supply and demand factors.

New Construction and Vacancy

Still restricting ourselves to housing, let us once more attempt to study the past. Chart No. 4 indicates with a solid black line the number of new family living units produced each year since 1879 in St. Louis. This chart is the result of a very careful and costly analysis and represents the closest approach at this time to an accurate index of construction of housing units. Individual family living quarters were adopted as a unit of supply—rather than the number of building permits or value of construction. Deductions from this index, of course, should be made

CHART No. 3

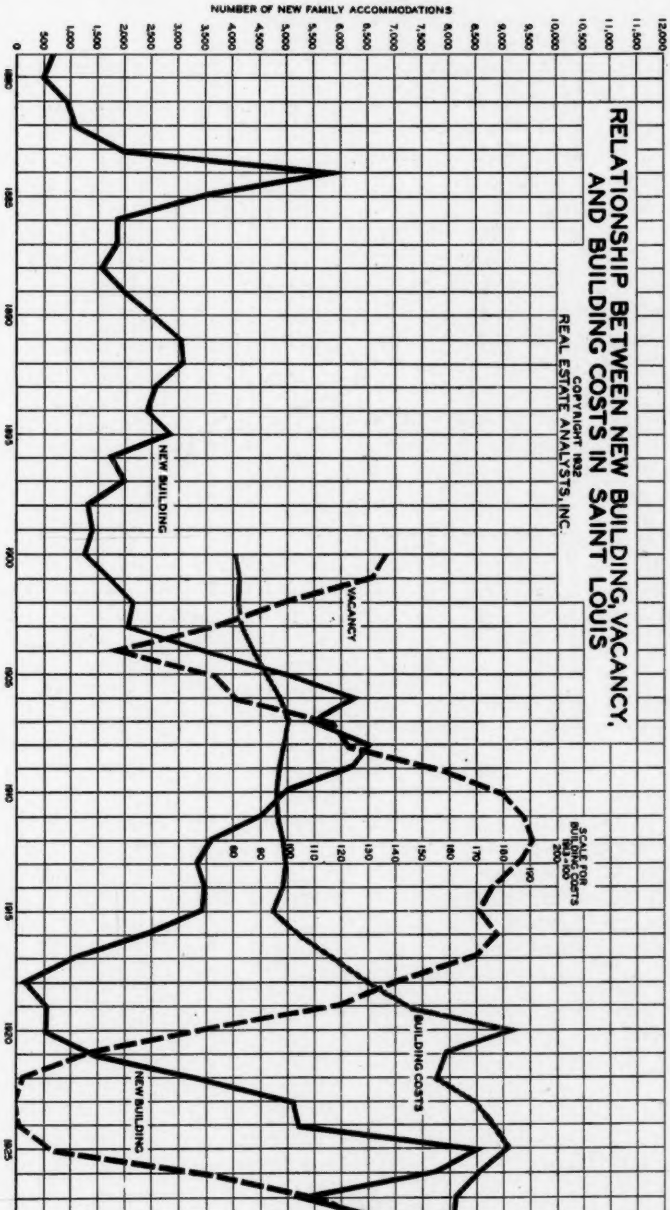


for demolitions, changes in use, and obsolescence. Since 1931 such data is being accumulated for St. Louis. Trends are clearly apparent from this chart, however. An interesting relationship is seen to exist between the factor of new construction and vacancy. Vacancy in housing units since 1900 is indicated by the dash line on the same chart. This line has been projected backward by a process of addition and subtraction from a survey taken in 1931 in co-operation with the Post Office Department. Several fairly definitely established points of minimum and maximum vacancy also assisted in the charting of this material which is considered quite accurate. A second occupancy survey is being made as this article goes to press. The results of this second survey will be minutely comparable with the first one and are expected to throw further light on the problem. This chart indicates at present a larger over-supply of quarters than has previously existed in St. Louis. Construction also is at its lowest level since the restrictions against unnecessary building in 1918 brought it down to almost the vanishing point. As this line is not weighted to compensate for the growth of the city the present low point really represents a more severe curtailment of construction than would at first be supposed.

Cost of Construction

The shaded line on this chart represents the cost of open shop construction of several typical buildings carefully estimated over the period of the

CHART No. 4


RELATIONSHIP BETWEEN NEW BUILDING, VACANCY, AND BUILDING COSTS IN SAINT LOUIS
COPYRIGHT 1932
REAL ESTATE ANALYSTS, INC.
NUMBER OF NEW FAMILY ACCOMMODATIONS
PERCENTAGE OF OVER SUPPLY OF FAMILY ACCOMMODATIONS
SCALE FOR BUILDING COSTS
NEW BUILDING
VACANCY
BUILDING COSTS
A-532

past thirty-two years. It is interesting to note that the revival in construction occurred earlier in relation to increasing rents and declining vacancy percentage in the cycle beginning in 1903 than it did in the one beginning in 1918. This was probably due to practically stationary building costs in 1903 and rapidly rising costs in 1918. The effect of replacement costs on rents is deserving of further study. Preliminary work on this subject seems to indicate that only for short periods of minimum vacancy do rents obtainable provide a sufficient return to justify new building at the then prevailing costs. New construction is always "chafing at the bit" and proceeds to overbuild almost before the previous over-production has been absorbed.

The present over-supply seems hopeless to many and well it might be if it were not for certain characteristics of the factors of demand which are not generally understood. An over-supply of housing units can be overcome through demolition, change in use, and obsolescence and/or through increase in demand.

The Family Unit

The increase in population is generally supposed to provide a demand for housing facilities proportionate to that increase. Attempts to weight data involving demand for housing on a population basis over a considerable period showed clearly the fallacy of this assumption. Further study has indicated that the proper measure of demand for housing accommodations is the family and not the individual. In 1850, 1,000 persons comprised only 178 families. 1,000 persons today comprise 263 families and require 48% more homes than were required by the same population eighty years ago. During that period the average family has decreased from 5.6 persons to 3.8 persons. The problem would still not be difficult if the increase in families were uniform; but we find it is not.

The Marriage Rate

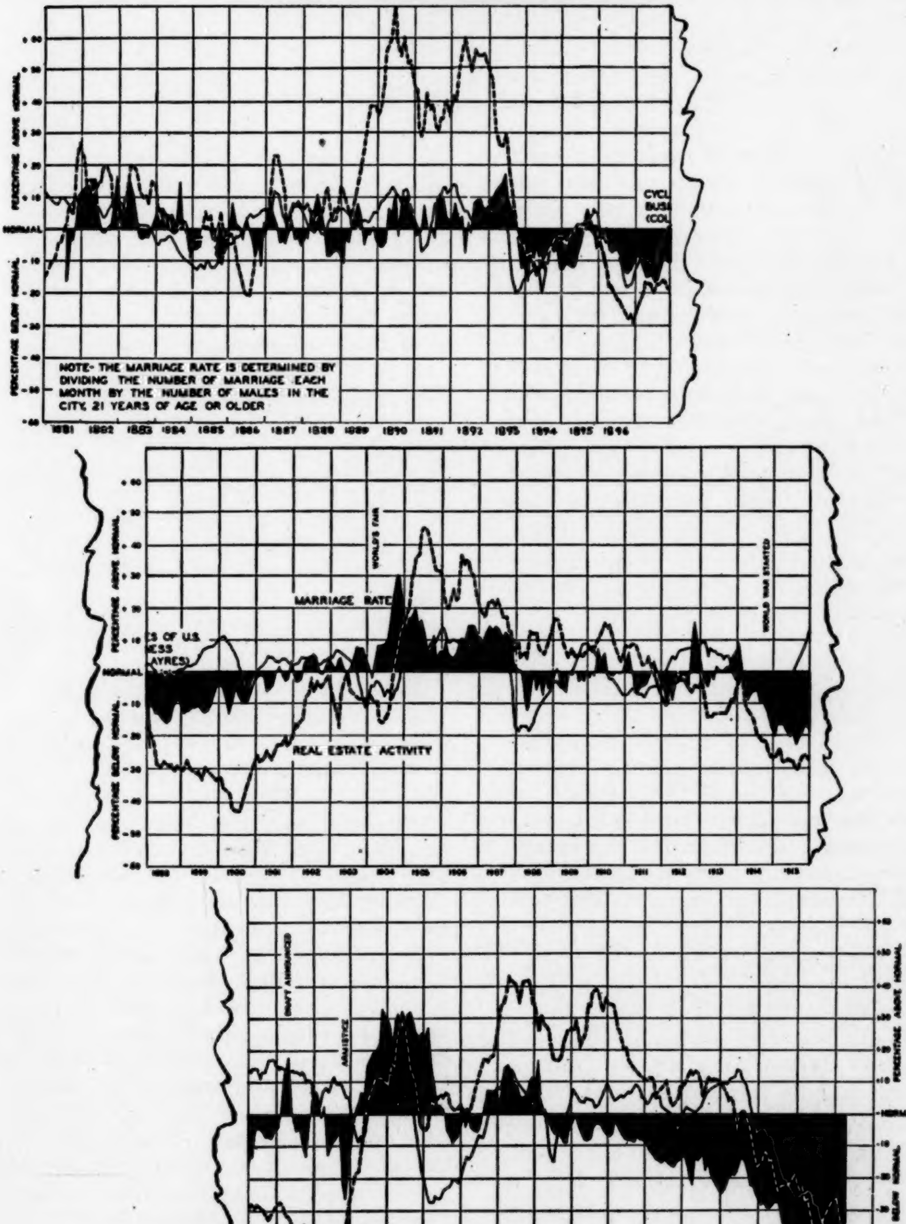
The marriage rate, when properly weighted, varies above and below normal to the extent of from 30% to 50% —in cycles which coincide almost exactly with cycles in construction, vacancy, foreclosures, rents, real estate activity, and prices. Chart No. 5 shows clearly the relationship of this cycle to those of real estate activity and general business conditions.

Since 1924 the marriage rate in St. Louis has been below normal; and at the present time it stands at about 50% of normal. The accumulated shortage below normal since 1924 is nearly 17,000. Most of these marriages are delayed because of economic conditions and will take place at an abnormal rate with the return of more normal employment. "Doubling up" accounts for perhaps as much more potential demand as delayed marriages. Economic recovery will release these factors and the seemingly hopeless excess of quarters will be quickly absorbed. The attitude of the public toward real estate will change immediately. When this occurs the present downward trend in rents will reverse itself just as it did in 1900 and again in 1918. When will this occur? How much of an increase in rent may be expected? The preceding discussion clearly indicates the necessity of more through knowledge of trends of basic factors, factors which up to this time have been given little or no attention by our economists. Many other studies indicate the importance, the close relationship, and the very orderly behavior of the many factors bearing on real estate. They present a challenge to the appraiser of tomorrow such as never confronted any group before.

Note: The charts used in this article were prepared by the Saint Louis organization of Real Estate Analysts, Inc. under the personal supervision of Roy Wenzlick, vice president in charge of economic statistics. They are copyrighted and are not to be reproduced.

CHART No. 5

SAINT LOUIS MARRIAGE RATE



Relation of Value to the Purpose of the Appraisal

By Ivan A. Thorson

WELL may we ask whether the value of the property appraised should vary with the purpose for which the appraisal is made. Every day we see wide fluctuations in the appraisals made of the same property by the same or different appraisers, the value arrived at, apparently depending on for what purpose, for whom, and by whom, the appraisal is made. A property appraised for a lender, for example, is valued at $10,000 for the purpose of making a $5,000 loan, the $10,000 being usually the reproduction cost of the property. A seller's appraiser may give the property a valuation of $14,000, while a buyer's evaluation may be somewhere between those two figures, depending on the astuteness, eagerness, or gullibility of the buyer, and the sales ability or need of the seller. The assessor may place a $6,000 value on this property, because the equalization of the tax burden is the important task from the assessor's viewpoint, the "tax value" supposedly being a certain percentage of the "going" prices in the locality.

Again we may learn that this same property has been given a value of $20,000 by a friendly "expert" witness in a condemnation proceeding, the employment of such "expert" often being made contingent on his ability and willingness to establish successfully a desired maximum valuation for his client.

The value assigned to the property, indeed, seems to depend on for what purpose, for whom, and by whom, the valuation is made. Unless the concept of *value* varies with the type of the appraisal, I cannot see why the purpose of the appraisal should have anything to do with the eventual conclusion arrived at as to what the warranted present worth of the appraised property should be (my reason for not using the term "market value" as the value sought in an appraisal, will appear further on in this discussion).

What Do We Mean By Value?

In order to justify my position in this matter, I should perhaps define my understanding of the value concept. There seems to be more meanings assigned to the word *value* than to any other word in the economic lexicon, and the so-called "market value" concept seems to be in a particular muddle.

I realize that this is a large order and that I shall have to impose on the good nature of many to whom my explanations may be more or less "copybook platitudes". However, unless we come to a common understanding of the things we talk about, we are going to get nowhere. I believe that it must be conceded that our ideas in regard to land values are considerably confused, and more or less nebulous. We have found it necessary either to abandon the "market value" idea, which no one seems to be able adequately to define, and adopt what is called "warranted values" or, as has been done in the "Standards of Practice", define the term "market value", as *being* the *warranted* or *use* value. Personally, I believe the sooner we get rid of this *myth* which we have been referring to as "market value of land," the sooner we are going to arrive at some agreement as to what we should do in an appraisal.

I shall, furthermore, try to set forth the probable reason for the confused state of mind in regard to real estate values and valuations.

It is a human weakness to reason from the knowledge of things with which we are familiar, to things with which we are not so familiar; assuming that close similarity exists where, in fact, such similarity does not exist.

It is quite evident that we have tried to fit to real estate the result of our knowledge of and experience with other things, not realizing that land has many characteristics not possessed by ordinary goods. The result is that we have gotten ourselves into more or less of a mess, from which we are now valiantly trying to extricate ourselves.

When a considerable number of people have come to have some idea or notion about a certain thing, there is usually a reason back of it. This reason may not be a sound one, or it may simply be a misapplied conclusion; the information on which the conclusion is based may be correct, but the inference drawn therefrom may be wrong.

The Market Value of Ordinary Merchandise

Market value of things we buy and sell in our every day transactions, such as eggs, sugar, canned goods, razor blades, shoes, etc., is something real and definite. The prices of these articles are every day published in the daily newspapers or on hand bills thrown at our doors. In addition, the prices are found on tags attached to the goods. We recognize at once whether or not the prices given are low, high, or just fair—that is of goods with which we are particularly familiar. We buy such goods understandingly and willingly. When we have made a purchase, we feel that we have received our money's worth and possibly more. The satisfactions and benefits which we derive from the consumption or use of the things we buy in the way of food, clothing, etc., constitute our "income" from these things. Such income (satisfaction, benefits) is often difficult to measure. It is simpler to measure the "outgo", that is the *cost* of these things. As a result we become accustomed to refer to the *cost* of an article as being its *value*, and not so incorrectly when referring to ordinary merchandise, because the *production cost* and ultimate *selling price* of merchandise hold as a rule a certain fixed relation to each other, and as stated, we willingly and understandingly pay the cost price asked because we know beforehand what satisfactions and benefits (income) they will yield us.

When Cost Corresponds to Value

Because cost, market value, and price, in the case of ordinary merchandise, are almost always in logical ratio, we jump to the conclusion that this must be so in the case of real estate as well. Because we have paid $10,000 for a property, that must, as a matter of course, therefore, be its value, although the net benefits to the owner either in the form of rent, amenities, or business profits do not justify such a value. The familiar example of an office building erected in the desert will show the fallacy of such a conclusion. The building may have cost a million dollars, but it has no value.

It will help us to distinguish between Cost and Value if we recall that *production* is the creation of useful and desirable qualities in material things. We may employ Labor, Capital, and Management to move a stone pile across the road and back again, at a cost price of, say, One Hundred Dollars. The value of this performance, however, would be nothing. We would have created no useful or desirable qualities in the material thing on which we expended labor, etc.

All employment of Labor, Capital, and Management does not result in production. These so-called "factors of production" are sometimes even employed to destroy wealth, as in the case of war.

If we build a structure which is an over-, under-, or mis-improvement, we are entitled to a value commensurate with the net income return from such structure, present and potential, and nothing more. However, we must guard against a too ready dismissal of possible future utilization of what may at the present time appear as an improper improvement. Physical capacity has potentialities which may not be easily apparent at the time the appraisal is made.

The Willing-Buyer-and-Seller Theory

I mention these things to show how we possibly came to regard cost and value as representing the same thing. It is probable that from our experience with ordinary merchandise we have also evolved the "willing and able seller and buyer" theory of market value of land. Any experienced real estate broker will tell us that he has made very few, if any, sales under this willing-and-able-seller-and-buyer theory. Practically every sale of real estate is the result of more or less dickering between the buyer and seller and the price arrived at is merely the judgment of two people—the buyer and the seller. Two other people might have arrived at an entirely different agreement as to price.

Land is unique, heterogeneous; that is, there are no two parcels exactly alike. Unique things such as masterpieces, land, custom built yachts, etc., have no general market as have ordinary merchandise, of which there may be thousands of the identical kind, size, and utility. We would not say that the *market price* of Mona Lisa or the Blue Boy is so and so.

Market Value and Eminent Domain

In condemnation proceedings, we often hear *market value* referred to as being the price at which willing, but not forced, sellers and buyers agree; and sales over a period of time are quoted in substantiation of such alleged market value. We, however, seldom, if ever, have noted any attempt to ascertain the circumstances under which such sales were made, with a view to showing whether or not any undue pressure was exerted, or whether the price paid was due to some particular need on the part of buyer or seller.

Unless it can be shown that such sales have in no way been influenced, they should not be admitted as proper evidence to prove market value, according to the willing-seller-and-buyer theory. Many strange things happen in *Eminent Domain* proceedings, and that alibi, "market value", has proven a most convenient vehicle for juggling "values" by unscrupulous or ignorant appraisers.

Market Value on the Stock Exchange

In our examination of what is called market value of listed securities and commodities we find that it is the price at which the last unit or units were sold, at the close of the most recent session of such markets as the Chicago Board of Trade or the New York Stock Exchange. The fact is that the price at which the last units were sold was the price of the thing at the moment of the sale only. A listed security, however, has a "market" at any point of time during the session of the exchange.

To qualify as something that may be offered on our stock or commodity exchanges, there must be the following conditions present:

1. There must be many people dealing.
2. There must be large quantities or amounts of the kind of things dealt in.

3. There must be provisions for rapid communication between buyers and sellers, and frequent publication of information concerning things dealt in, as regards price, probable supply, etc.

It is evident that real estate could not qualify for listing under the above requirements. Its lack of homogeneity alone would disqualify it.

Little Help From Legal Sources

If we attempt to get some light on the market value idea by referring to legal literature on the subject, we get but very little satisfaction. Legislators and courts in their definitions of *market value* show great confusion of ideas. The definitions we encounter are more or less specific and the qualifications differ greatly. From these definitions, market value would, in some instances, correspond to the *use value*, in other cases would admit the *speculative element*, and again in other cases the *cost price* is designated as the value.

The Supreme Court of the United States has expressed itself as follows: "The value of the property results from the use to which it is put, and varies with the profitableness of that use, present and prospective, actual and anticipated. *There is no pecuniary value outside of that which results from such use.* The amount and profitable character of such use determines the value. . . ."

This decision was rendered some thirty-seven years ago. Contrast this with a recent decision by the New York State Supreme Court. After admitting that the Court knew of no exact yardstick by which to measure values of property pledged for a loan, it goes on: "After all is said and done, value is what a willing purchaser will give for property under fair market conditions. When one considers the nature and purpose of a loan, he is forced to the conclusion that the valuation of the security should be based on physical, tangible property, and not on some unsubstantial, fanciful, or ephemeral intangible. Potential profits in the hotel business are most uncertain, and the minute they are made the basis of a loan the investor jumps from the realm of investment to that of speculation."

In this latter decision, we see the uncertainty which characterizes so many similar decisions, and furthermore, we also note the lack of grasp of the economic principles involved.

Engineers and doctors do not look to statutes or court decisions for definitions to guide them in their work of building bridges or of operating on the human body.

However, it is not the fault of the Courts that they are saddled with the work we should be charged with doing. As always happens when those agencies who logically should perform, neglect their assignment, the matter in hand will land in the Courts. The Courts have done a fairly good job of it, considering the technical nature of the subject and the scant help they have received from us.

It is not reasonable, however, to expect that we should be able to establish Economic Law by statute or by court decisions. Court decisions, moreover, are not general in nature; they are rendered to cover specific cases. Two or more identical situations are seldom found in real estate appraising. Hence previous decisions are of practically no value in deciding new cases.

What Then Is the Market Value of Land?

A year or two ago when I wrote my "Essentials of Real Estate Values" and along with every other appraiser was struggling with this market-value-of-land business, I advanced the following: "The market value, which we are endeavoring to ascertain in an ap-

praisal of real estate, is a reasonable and fair value, which, under normal or ordinary conditions, an owner would be justified in expecting in a sale of the property, if all the facts concerning the property were known to the buyer, and the property were properly advertised." While I did not know it at the time, it corresponds almost exactly to what my friend Mark Levy had already suggested.

But are not prices which a seller is *justified* in expecting based on the future net income from the property, so far as we are able to estimate such income? (The "income" here used in its broadest sense, as including rents, amenities, and business profits). That is, we are defining *use* or *income* value and calling it *market value.* Stripped of its somewhat technical verbiage the "*Standards of Practice*" defines Market Value of real estate as being the *present worth* of *future net income.*

In considering the market value of ordinary goods we found that it was practically identical with the warranted value of such goods; that is, it represented as a rule the cost of production plus a competitively established margin above such cost, the cost of production itself being competitive.

Land Has No Production Cost

The fallacy of applying the same line of reasoning to land should be at once apparent when it is considered that land originally has no production cost*; that is, man did not manufacture it. Land was here when we appeared on the scene, originally a pure gift of nature.

While the increase in farm land values is often merely the reflection of the labor expended on it in making it arable and accessible, we know that a great deal of urban land has acquired values far beyond the cost of the labor, capital, and management expended on it, the increased value being mainly the result of human action and behavior coupled with the tendency during the last fifty years of people to congregate in cities. It is this unearned increment of land which we do not find in the case of ordinary commodities that has to a large extent created our land valuation problem. How are we going to measure this increased value? To answer this we are forced to consider the Ricardian theory of economic rent. I share with my hearers an apathy for dry academic discussions and shall therefore, be very brief in my references to this age-old controversial point.

*See page 153-174, Urban Land Economics, by Dorau and Hinman. — Ed.

Is Land Capital?

The rent theory of Ricardo resolves itself into whether land is or is not capital wealth; that is, is it produced wealth which in turn produces other wealth? We shall recall that wealth is divided into two classes, capital and consumption wealth or goods. Capital wealth being wealth produced by man and nature, but which in turn is used in the production of other wealth, such as machines, etc.; while consumption wealth or goods are similarly produced, but are themselves consumed or used up, such as food, fuel, clothing, etc.

If land is not capital wealth but simply a limited natural agent, a gift of nature, the return on the land would always be a surplus above a fair return on the improvement on the land, because the improvement, all agree, is wealth, and as such is the product of labor, capital, and management expended on nature's forces. And it is further conceded that labor will not work unless it is paid, that capital must be paid for by way of interest, and that the entrepreneur or enterpriser will exact his toll. In other words, to bring these factors of production into action they have to be paid for and the first income must go to them. Only what is left is imputable

to the land. It is evident that according to the Ricardian doctrine, any labor, capital, and management which have been expended on the land before the improvement was placed on it must be ignored, and furthermore it must be assumed that the improvement is always proper. In order to be a consistent adherent of Ricardo's rent theory the land must always be made residual in an appraisal.

However, we know that we cannot ignore the labor, etc., that have been expended on the land, nor are the improvements always proper—that is the result of labor, capital, and management does not always result in a corresponding production, and for that reason we find it proper in many instances to make the improvement residual.

Practically all our early American economists, and an increasing number of our present day economists, have taken issue with the old Ricardian rent theory and hold to the view that land, and especially urban land, is a "made" product more or less in the sense that all capital wealth is merely the original element, nature, plus modification. The same productive agencies, they argue, are used in developing an urban site from useless marsh lands, uninhabitable hill tops, or desert wastes, as are employed when a tree is cut down and molded into usable articles, such as chairs, tables, etc. Land is, therefore, Capital in the same sense as are the improvements placed on the land.

Both Theories Should Be Considered

Nevertheless, there can be no dispute about the fact that land in the raw, before it is appropriated, is nature's gift, pure and simple, as is everything that goes with it, such as minerals, trees, etc. It is important to remember this. It is a characteristic of land that originally it had, as noted, *no production cost*. It differs in this respect from the ordinary commodities which we buy and sell in the marts of the world. Land differs, furthermore, from ordinary goods in that it is *immovable*. We cannot ship it around to better markets; we must sell it as it lies. It is *heterogeneous*, that is, there are no two pieces alike, at least not so far as location is concerned. Land, as geographic area, is furthermore indestructible, that is, it does not "use up". These characteristics which set land, as geographic area, apart from ordinary produced commodities, become less pronounced as urban land is developed. We have less and less to do with *land as merely geographic area* when its "situs" qualities become more important than its soil productivity. The important thing, when contemplating urban land value, is its capacity for service because of its location as a store site, etc.

Geographic Area and Economic Efficiency

While land as mere geographic area (the Earth's surface) may not be moved, stretched, or destroyed; as "economic area", it may be moved by a change in the business center of a city; it may be increased by the erection of multi-story buildings on it; and surely may be wholly or partially destroyed by improper use, by a change in the city's directional growth, or by a number of other things contributing to its obsolescence.

It is the utilized and utilizable land that has value. Land at the South Pole is economically non-existent.

While the Ricardian theory is more or less basic, and should be kept in the background as a sort of balance wheel, too literal application of this theory will place us in many untenable positions, as, for example, that land value should always be made residual. It is without question a good guide when determining land values in stabilized business sections of a city, or in ascer-

taining the value of well-developed farm lands. Although even in these cases there are many considerations which will call for modification of its strict application. (For discussion of the "Residual Theory" see Chapter III of the author's *Essentials of Real Estate Values.*)

Conclusion *Re* Market Value of Land

It is quite evident that our confused notions about the so-called market value of land come, as stated, from our endeavor to apply to land values, terms and interpretations acquired in other fields. Ordinary goods have an actual market value, that is, a more or less stabilized value based on certain definite things, such as a fixed production cost, and close familiarity on the part of users and buyers with the products and the benefits to be derived from them. Purchasers of meats, groceries, vegetables, clothing, etc., know what they want and are thoroughly familiar with the consumption value of the various items which they buy. Furthermore, we should note that the prices reflect also the values in almost every instance where the purchaser is thoroughly familiar with what he buys, so that *market prices, market values,* and *warranted values* are practically the same in the case of commodities—that is, they are in proper ratio.

Land on the other hand is something which the average individual buys as a rule but once or twice in his life time. He has but very little familiarity with the possibilities and use of land. He must, therefore, largely depend on what others say of land. As a result the prices he often pays are quite out of proportion to the use or warranted value of such land. Such sales at unwarranted prices may not be the result of deliberate attempts on the part of the seller to misrepresent. Very often the seller or broker is unfamiliar with the warranted values.

Such selling prices, whether they be obtained through unethical selling methods, or merely through ignorance on the part of buyer or seller, nevertheless have been considered proper indices to the value of the land in a particular district. We have blandly quoted any sale made in the locality as proof of the value of same without in any way attempting to diagnose the circumstances or conditions under which such sales were made.

Market values established in this way are not truly market values, but are simply *prices* obtained through various methods which may or may not reflect a corresponding value.

Why not then go the whole way and expose this fraud which has been masquerading as true "market value" and state that market value is, as the "Standards of Practice" in substance says it is, "the present worth of future net income"; and, as a warranted value can only be predicated on the *use* to which a property may be put, it is self-evident that what we aim to appraise as market value is the *warranted* value of the property, predicated on its highest and best use, so far as we are able to forecast such use in the light of past experience.

Appraising a Branch of Economics

Appraising then becomes a legitimate branch of Economics, and as such has to do with the processes of *production, consumption* (use), *exchange* (buying and selling), and *distribution* (ownership) of wealth, the particular kind of wealth under consideration being *land* and the things more or less permanently attached to land — the things we call real estate.

An appraisal, based on economic fundamentals, may be defined as the process of calculating the *value of an ownership,* that is, calculating in terms of money, the value of the privilege or right to enjoy the benefits accruing from the thing owned. An appraisal is also used to designate the reproduc-

tion or *replacement cost* of the physical belongings of the owner. The former may be designated as an appraisal to determine *value*, and the latter as an appraisal to determine replacement *cost*, as when we appraise for insurance risks.

The Nature and Extent of Ownership

An *ownership* in real estate, as well as in personal property, may be exclusive or may be shared by others. It furthermore, may be complete or limited in extent. It may be continuous or temporary. The nature and extent of ownerships, would differ in a fee, in a lease, and in a mortgage.

An ownership is synonymous with the term "property right", or with "property", as the latter is used by the economist, and may be defined as all the rights to the benefits accruing from the thing or from the *part* of the thing owned. In an appraisal for value, we aim to determine as nearly as we can, the money value of such rights. The benefits which we seek to appraise, we assume will accrue from the highest and best use of tne property.

Some Important Terms

Wealth, commodities, and *economic goods,* as used by the economist are the desirable physical things owned by people and constitute the things which we buy and sell in the market. They are distinguished from *free goods* or *gifts of nature,* such as air, sunshine, and possibly land itself in its raw state; the term *land* including all nature, soil, minerals, water, vegetation, etc. Wealth, commodities, and economic goods are all the product of man's labor and ingenuity working with nature or the forces of nature.

Income includes all enjoyments, satisfactions, benefits, accruing from the things owned. Desirable yields from wealth are called *income*; undesirable yields we designate as *costs*. The difference is called *net income* or *net* loss, as the case may be. Unless *gross income* overbalances *total costs* during the earning or economic life of the thing owned, an ownership is not desirable; it has no intrinsic value. It may have some *commercial* or *exchange value,* based on misunderstanding, lack of knowledge, sentiment, gullibility, or on fraudulent representations. However, in the long run property values tend to seek a level based on the *net income* from the properties involved.

Price is the amount of money involved in a transaction. It is the common denominator of cost, income, and value. The seller always gets value — purchasing power — for what he sells, provided he is paid in money, while the thing the buyer gets may or may not have any value; as for example, if he bought a gold brick.

Economic Problems Difficult of Solution

Appraising, as above defined, comes, as stated, within the realm of economics, which is sometimes defined as the science of valuation. Economics is simply a consideration of the best way to get along in this vale of tears — weighing the relative advantages of the different processes by which we make a living — it is common sense in conducting our business. Some who belonged to the older school of economists spoke of "immutable and unchanging laws of economics". There are few, if any, economic laws which operate with mechanical precision. Most of them may be simply stated, in fact most economic principles seem axiomatic, but are as a rule, complex in their solution. Almost anyone will tell us how the depression came about. Few, even among our ablest leaders, will hazard an opinion as to just how to get ourselves out of it, or how we may prevent the next one under our present social order.

An economic problem differs from a mathematical problem in that you

cannot solve for the one and only correct answer. There are no formulas, no patent solutions, which may be used definitely to measure values. The study of appraising is, therefore, very frequently disappointing to those who take it up for the first time. Such persons often become very impatient because they are not given rules and tables, the use of which would readily and easily furnish the answer to their quest for values. Economic laws or rules exist only in a statistical sense. They do not operate with the certainty of the laws governing more exact sciences, such as chemistry, physics, or mathematics. Economic society and conditions are, furthermore, constantly changing. Without doubt, the difficulty of formulating specific rules and laws governing land appraising may account in a great measure for the fact that this phase of economics, i. e., the study of land, has been so much neglected by both economists and the real estate fraternity.

Land Study Neglected

Land has seemed so obvious — so easy to understand—why bother much about investigation? Unfortunately this attitude still exists to some extent among those who have assumed the role of advisers. It was the general attitude of most people until a few years ago. There is probably some excuse for this. Thousands of books have been written concerning commodities and securities generally bought and sold in the marts of the world. Almost every industry has its own literature. Land, Mother Earth herself, from whence all things come, alone has remained unsung — has had no literature, except for some academic discussions by our early American economists, which revolved mainly around Ricardo's rent theory and the Malthusian theory of over-population and underproduction of food stuffs. Very little of a constructive nature has otherwise been written in regard to real estate until comparatively recently.

Tables and Formulae

More or less successful attempts have also been made to work out curves and tables designed to give appraisers a formula for use in estimating present worth from predicted future income. Such devices may be of some help. They show at least that the student of the subject is earnestly trying to find some more or less reliable solution. Had we accumulated adequate data extending over a considerable period of time showing the actual average earning life of, say, apartments; what fluctuations had occurred under varying conditions in the rentals from such apartments as they grew older, etc., etc., we should be able to work out reasonably reliable curves, graphs, or tables to guide us in our predictions as to future income which we could expect from different types of apartments under varying conditions. Such data, however, are not available, and we shall have to do the best we can with such data as we have at hand.

I believe we shall agree that it will be necessary to renovate and modify to a considerable degree real estate appraising as it has been practiced. The old order must go. It has proven a dismal failure. A better technique must come into general use based on a knowledge of sound economic principles. Furthermore, in order to secure general acceptance of sounder methods, they must be simplified as much as possible.

We may help this along by using, wherever possible, methods and experiences with which the public is more or less familiar, provided such methods are sound in principle.

May we not take a page out of the book of experience of banks, mortgage companies, and other investment com-

panies, who have to deal with the same problem—that is, with the varying and uncertain income from different kinds of securities?

Conservative investors in securities have, I dare say, given more thorough study and thought to their investment problems than we have. They have settled down to a method whereby they designate their estimate of the soundness of securities by allocating to such securities a rate of yield reflecting the estimated risk. That is, their estimate of the certainty of interest return, and the liquidity of the principal are given expression in the rate of the return which they demand from the securities purchased.

Risks of Lender and Purchaser

A conservative mortgage we usually consider as consisting of 50 per cent of the appraised value of the property; and such a margin is as a rule entirely safe. Suppose the property in question were an apartment, and we desired an additional loan representing half of the remaining equity. We would likely have to pay at least 12% for such a loan. Suppose further, that we had a third mortgage covering the remaining 25% of the appraised value of the apartment. We would, I believe, have difficulty in selling it, even if it showed a yield of 24%. In other words, in order to dispose of mortgages covering the total cost to the buyer of such a property, the average yield from such a mortgage would have to be at least 12%. This we believe would not be exorbitant, and still some of us appraise an apartment on the basis of an 8% net return on the building and a 6% return on the land, reckoning the same on the earnings from the property when the improvements are new.

The purchaser of the securities would be better off than a purchaser of the property, as he would have as his security, in addition to the property, the responsibility of the mortgagor as well.

If a 12% net return would be a fair rate in the case where a 100 per cent loan is placed on the property, why should it not be the same where the property is bought outright and where the risk may be even greater?

Forecasting Risks

Instead, therefore, of attempting in an appraisal of real property to estimate and to designate in dollars the *future* income spread, we may obtain approximately the same results by estimating from all available data the probable hazards incident to ownership of the particular property under consideration, and reflect such hazards in our capitalization of the *present* warranted net earnings from the property, *using a rate percent reflecting the estimated future risks.* The two methods are in principle the same, but one is easier and simpler of practical application.

This procedure, besides being simple of application, has the further merit of forcing the owner, prospective buyer, or lessee to a consideration of the investment risks involved. The item of adequate rentals would as a result be looked into more carefully. It will be found an effective antidote against reckless and ill-considered building.

Either system pre-supposes the unbiased weighing of the extensive data necessary to arrive at a warranted conclusion as to what interest rate to adopt, or what income spread to expect.

The example shown is perhaps too curtailed amply to illustrate the appraisal procedure suggested here. The property appraised is an apartment. The risk involved in the investment in an apartment is quite considerable. One of the essential things in the ap-

praisal of an apartment is to break it up into its component parts, that is, to list separately the items shown in column A in Table I.

The percentage selected to represent the investment risk involved will depend upon the type, use and quality of the buildings and equipment. The estimated length of the earning life of building and equipment will depend largely on the same factors. Both the risk and the economic life will also depend to a considerable degree on the location and environment of the property.

TABLE I.

General Tables Suggesting Interest Rates Reflecting Varying Risks and Varying Economic Life

A Improvements and Component Parts	B Interest Rate Reflecting Risk	C Estimated Economic Life
1. Building Investment (Including Pre-Organ. Expense)	8% to 14%	10 to 45 yrs.
2. Furniture and Furnishings	11% to 15%	6 to 12 yrs.
3. Refrigeration Equipment	10% to 15%	7 to 15 yrs.
4. Heating Equipment	10% to 14%	8 to 25 yrs.
5. Elevator	9% to 14%	10 to 30 yrs.
6. Hot Water System	10% to 14%	6 to 20 yrs.
7. Miscellaneous Equipment	8% to 14%	
8. Land	4½% to 10%	

These items have a different life expectancy, and therefore a distribution of earnings should be made to these several parts to take care of this as well as to reflect the respective risks involved.

The fact that the furniture must be replaced on the average of three times during the life of the building should make plain the incorrectness of throwing this item in with the building and capitalizing it as part of the general improvement. The same holds for the other items in column A.

Column B lists interest rates applicable to different types of properties.

Below we show application of the method of capitalizing the present warranted net income, using varying rates per cent to represent the future hazards or risks.

The building and component parts are made to yield the estimated necessary percentage returns, assuming that the improvement is a proper one. If the improvement is not a proper one, use the procedure indicated in paragraph 2 below.

The property is a new apartment of average type in a fairly good location.

TABLE II.

Warranted Present Gross Annual Earnings (may be average returns from similar apartments similarly situated)	$ 93,110.00
Total deductions—Operating Expenses (Including taxes and assessments)	39,630.00
Net annual warranted present earnings before amortization and interest charged on investment	$53,480.00

SPECIFIC APPLICATION OF COLUMNS B AND C

A Improvements and Component Parts	D Reproduction Cost	E Econ. Life of building etc.	F Sinking Fund Factor (4%)	G Annual Charge-off to Retire Investment	H Int. Rate Reflecting Risk	K Amt. of Interest
1. Building Investment (Including Pre-Organ. Expense)	$296,500.00	30 yrs.	1.783	$5,286.95	10%	$29,650.00
2. Furniture and Furnishings	42,000.00	8 yrs.	10.852	4,557.84	13%	5,460.00
3. Refrigeration Equipment	2,000.00	10 yrs.	8.329	166.58	12%	240.00
4. Heating Equipment	3,600.00	17 yrs.	4.219	151.88	11%	396.00
5. Elevator	4,500.00	15 yrs.	4.994	224.73	12%	540.00
6. Hot Water System	600.00	10 yrs.	8.329	49.97	12%	72.00
7. Miscellaneous Equipment	1,300.00	15 yrs.	4.994	64.92	12%	156.00
	$350,500.00			$10,502.87		$36,514.00
8. Land	36,000.00					
	$386,500.00					

Net annual earnings before amortization and interest		$53,480.00
Amortization of Building and Equipment—Column G	$10,502.87	
Interest on Building and Equipment—Column K	36,514.00	47,016.87
		$6,463.13
8% return on Land		$2,880.00
Surplus		$3,583.13

1. **The risk element** would be greatly reduced if the property were a retail store in a well-developed metropolitan business district, and would be reduced still more if such property were located in a fast developing new business section.

2. Should there prove to be an over-improvement, and the improvement, as a consequence be made residual, the reduction should be applied to the building alone (Item 1), not to the other items. If we buy an elephant to do the work of a horse we will have to pay for the harness and feed him, no matter how little work he does.

3. The Surplus item is a very vulnerable one. A fewvacancies will do away with it, and if it is very large, competition will take care of that. The ideal way would be to set it aside as an "old age" account. The more practical procedure would probably be to capitalize it, say, at 25 per cent or more, as the risk is great, and allocate this additional capital value to the land.

4. It will be noted the appraiser's judgment is constantly drawn upon, particularly, in the selection of the interest rate to reflect the risk, and in the estimation of the duration of the economic life of the building and of its component parts. No suggested set-up should be accepted by an appraiser as a formula or inflexible rule applicable to all situations.

Why the Large Percentages?

I do not believe that a lender who understands the risk involved would make a 100% loan on any apartment at a rate of less than 10%, nor on the furniture at a rate of less than 11%. There is no reason why the owner should assume a greater risk than such a lender, although in the large majority of cases he actually does to his ultimate grief. As pointed out, an owner really takes a greater risk than a lender and should therefore demand an even greater minimum return. I believe this to be true in spite of the contention that because the owner enjoys the possibility of a speculative increase, he should be content with a smaller immediate return. Apartments, as well as all other residential property, cannot be classed as enhancing or speculative properties; quite the contrary. This we shall discuss further on.

For this reason the owner should demand from such a property a return at least commensurate with what a lender would demand from a similar property under similar conditions. The situation becomes quite different when the investment involves a business property in the path of the city's directional growth, where the enhancement of the property will be almost certain to take place.

When the Land Is Residual

Referring to the brief set-up above, inasmuch as the improvement appears to be a proper one, the land value should be made residual, that is, after deducting operating expenses, amortization, and proper interest return on reproduction cost, the net remaining return is imputable to the land.

Inasmuch as similar land in the neighborhood may be bought for $36,000, and anyone with the means may reproduce the improvement at the costs shown, the land value will be designated as being $36,000. Anything left over after the reasonable return from this land, say at 8%, should be designated as surplus,—a very elusive and vulnerable item if produced from a property which has little or no "turn-over", as is the case with practically all residential income properties. Two or three vacancies will wipe out the surplus and may create a deficit. Eight percent should be the minimum return demanded from land improved with residential income, as such land decreases in value with the improvement, unless it should be fortunate enough to come into a higher use.

Apartment house sites need not be confined to certain specific spots as are high-powered retail sites. In fact an apartment would be better off some short distance away from busy and expensive street frontages. The somewhat secluded residential properties are increasing in demand.

When Improvement Is Improper

Now let us assume that the effective gross income would be $73,110.00 and the land value $46,000.00, the expenses of operation remaining the same, that is $39,630.00. This would leave a net of $33,480.00 which would fall considerably short of the required earnings to take care of all charges according to our set up. This would indi-

cate that the improvement was not a proper one, assuming that the land value can be justified. In this case the improvements would properly be made residual.

The residual building value (that is the warranted earning value) may be found by subtracting from the *net income from the buildings alone*, the sinking fund factor, and dividing this by the capitalization rate.

In other words, our residual building value (V) will equal earnings from buildings alone (I) minus sinking fund factor (SF x V) divided by the rate reflecting risk (R) or

$$V = \frac{I - (SF \times V)}{R}$$

$$RV = I - (SF \times V)$$

$$RV \text{ plus } (SF \times V) = I$$

$$V\ (R \text{ plus } SF) = I$$

$$V = \frac{I}{R \text{ plus } SF}$$

The net return from buildings alone is $17,720.08. This figure is found by adding together the sinking fund and interest return from all items in columns G and K except the first item in each column, and adding to this sum 8% on the land ($3,680.00).

Using formula above we have:
V = ?
I = $17,720.08
R = 10% or .10
SF = .01783 (factor for 30 years)

Substituting in formula:

$$V = \frac{\$17{,}720.08}{.10 \text{ plus } .01783}$$

$$V = \frac{\$17{,}720.08}{.11783}$$

V = $150,386+ = The residual building value

Properties In Mid-Life

This method of finding the residual value of the improvement lends itself very aptly to calculating the value of buildings at any stage in mid-life. A building, new or old, is at any time worth what it will consistently earn. The procedure of finding a "replacement" value of an old building is really a ridiculous performance because we know very well that there is really no such a thing as actually reproducing an old building. It would cost very nearly the same to replace an old building as it would to build a new one, and no attempt would really be made to do so. The land value would have to be more or less the *demand* price for similar land, similarly located. If the earning ability of the land appeared to be rather doubtful, capitalize it accordingly.

The properly capitalized residual earnings would represent the present value of the building. From its condition and probable future earning capacity, its remaining life should be determined. Due regard must of course be given to the condition of the plumbing and other equipment, as to their respective remaining life expectancy, renewals, etc. Otherwise handle the sinking fund and capitalization of building and equipment as suggested.

It will be found to be a much sounder and safer method of ascertaining the actual basis for loans, investments through purchase, taxation, or for any other purpose, where actual warranted value is desired. It will furthermore eliminate a great deal of the juggling which is now going on in connection with the appraisal of old buildings.

Designating "replacement cost" as the value of old buildings is equivalent to trying to fix a *replacement value* on second-hand merchandise, which is all that old properties are, at least outside of the high-powered districts.

Old and second-hand merchandise have value only as they can be consumed or used by people who buy second-hand or old goods. An old thirty room house will not sell for more, as a rule, than an old eight or ten room house, unless it happens to be in a rooming or boarding house district.

There is a striking similarity beween the *use, old-age value*, etc. of single residences and family cars, and between

multiple dwellings (residential income) and passenger busses. Give it some thought.

In general, it is the remaining *use* value which determines the warranted value of any old property, and such value is seldom indicated by the reproduction cost, less physical depreciation.

Any accumulated sinking fund, which is only a paper item as a rule, would of course belong to the party owning the property during the accumulation of such sinking fund. It will seldom be found sufficient to cover the physical and economic depreciation.

Preliminary Data

As a preliminary to any appraisal, the following, therefore, becomes necessary:

1. Classify the property, as to nature and extent of incomes, which may be in the form of —

   A Money (rents).

   B Amenities (Comforts, pride of ownership, and other satisfactions).

   C Business profits.

   This will determine method of procedure.

2. Next determine whether the income is likely to increase, diminish, or remain constant. This will determine the capitalization rate.

3. Finally we must estimate the earning life of the property. This will fix the duration of the flow of the income and the amount of the annual sinking fund necessary to amortize the investment in the building during its earning life.

All properties having a money income, or those properties which may be easily converted into money income properties, should be appraised by an analysis of such income, with due regard to future income increase or decrease inherent in the type of property appraised.

When Income Is Incommensurate

When the income from a property is rendered directly to an owner in the form of amenities or business profits, a definite capitalization of the income becomes difficult, if not impossible. If the improvement is a proper one, we proceed to designate the cost involved in securing another similar physical property of like utility as the value of such property. The so-called "replacement value" is a very nebulous thing. We have already referred to this.

In some cases we may compare the property to be appraised with other similar properties which have a definite money income, or which have in some other way established a more or less definite money value.

Among properties which come under the head of having incommensurate incomes are:

1. Houses in which owner lives.
2. Manufacturing plants owned by the manufacturer.
3. Railroad terminals and rights of way.
4. Properties owned by a group of people, such as churches, clubs, etc.
5. Properties owned and used by the municipality, state, and national governments, such as schools, libraries, parks, etc.

Some properties yield their income to owner both in the form of money income and as amenities,—a farm, for example, on which the owner lives.

An appraisal for insurance purposes should obviously be made on a reproduction cost basis, less a certain allowance for physical depreciation. Insurance companies accept the risk on that basis and must therefore pay on that basis. Eventually, no doubt, insurance companies will give more consideration to the income value of the properties accepted as risks.

Enhancing, Static, and Receding Properties

It is important that we learn to distinguish between the various types of

properties, such as those which have enhancement value, and those which have no enhancement or speculative value. Residential units, whether single or multiple, have their highest earning value when new. From then on the trend is downward, with practically no exceptions, unless the district changes to a higher use.

A Wasting Asset

An apartment built for a hundred people will house not more than a hundred people, no matter how much or how well the surrounding territory builds up; while a store which has a hundred customers a day, when it first opens up in a coming district, may eventually serve several thousand per day, when the district becomes more fully developed, with the consequence that the merchant is able to pay a greatly increased rent. It is simply a matter of "turn over", as the merchant will say (there is, by the way, a good deal to be said on "turn over" in real estate utilization).

Property in the "downtown" comes under the stabilized or *static* classification, the general tendency being towards lower value levels because of decentralization which is rapidly taking place in most cities. With a change in the value of the dollar, rents and sales prices may nevertheless show a higher level than at present.

"Business" Frontage

When talking about business property we have no reference to the miles of frontage along outlying streets and boulevards that have been zoned for business and sold by high-pressure methods. One Western city of 20,000 has 60 miles of such frontage zoned for business. This city is actually *using* 2½ miles of the sixty. Such business frontage has little value.

Other Factors Which Influence Values

It is often stated that land values always increase with the growth of population. That is true, generally speaking, but we must know just *where* such increase takes place.

With the advent of the automobile the limits of every large city were flung out from five to ten miles, with the result that the intermediate districts, that is, the districts lying between the old metropolitan center and the newly established districts, became blighted. This means that such intermediate districts have ceased to grow, and that very little renovation of the old improvements has taken place. These intermediate districts, composed largely of residential properties, already somewhat along in years, have largely been abandoned by the original owners and have become almost entirely rental districts. When transportation became rapid and convenient, people seemed to prefer to live farther out. Here in our country people like new things. We do not seem to care much for tradition. We seek the latest, the most convenient, and most up-to-date. The century-old houses of the old countries have no appeal to the American home owner. We much prefer the more convenient and better arranged modern homes. So we flock to the new sections of the city, which as a consequence are built up with incredible speed in cities like Los Angeles, where the population influx has been, and still is, very large.

Yes, values do increase with the population, but such increase takes place almost entirely in the rim of the large city. It therefore becomes important to those who buy real estate for speculation or investment that they study the city's directional growth, so that their purchase may be in the path of such growth.

City Growth May Affect Some Districts Adversely

The fact is that the faster a city grows, the faster it moves away from the old centers, and the more rapidly the rim of the city increases in importance—largely at the expense of the intermediate districts. These intermediate districts unfortunately become, as stated, more or less blighted. Contributing to such blight in the intermediate districts, are assessments levied on abutting properties for the payment of arterial highways passing through districts. Heavy automobile traffic through a residential district, especially an older one, tends to bring down values. It is true that there are a few business enterprises which may be able to capitalize automobile traffic, such as markets, sandwich shops and automobile service stations, but the presence of these in turn will often further depreciate adjoining residential properties.

Arterial roads connecting the outskirts of the city with the "down town" should, in all fairness, therefore, be paid for out of a general fund or by those most directly benefitted.

What Shall We Do With the Static Intermediate Districts?

There is no doubt but that these intermediate districts represent as yet an unsolved problem. The recent government census report would seem to indicate that most of the "down towns" of our large cities have had their growth. It is a question how much further the decentralization will continue to take place. Some land economists, assuming that metropolitan centers will at least hold their own, seem to think that our next large move will be in the nature of a renovation and rehabilitation of these intermediate, more or less blighted districts, and suggest that possibly there will be no further need for additional sub-divisions in our large cities, as the vacant lots and the renovated, blighted districts will take care of the future needs. Others who have also given the matter study, are of the opinion that the exodus to the outlying districts will continue and that the old metropolitan districts will, with a consequent further decay of the blighted intermediate districts, become of less and less importance.

Possibly there are some social advantages which may, to some extent, counterbalance the economic loss in the blighted districts. Where, for instance, would the man of limited means, but with a large family, whose work makes it necessary that he be near the "downtown", find an adequate place to live in, if some of these large, well-built homes (of which there are so many in the intermediate districts), were not available at rentals well within his means? Furthermore, mothers with many dependents would find it quite difficult to earn a sustenance for themselves and families, except for the fact that they may rent these old large homes close in, and in turn relet or keep boarders.

Many students of land economics believe, furthermore, that the heretofore almost uninterrupted increase in land values will not continue from now on, basing their conclusion on the diminishing birth rate, and the check on immigration.

This probably will be more true of the Eastern part of our country than in the extreme Western part, to which the population influx is still very pronounced. In any event, they are problems which invite our most serious consideration.

Our Fluctuating Dollar and Real Estate

There is perhaps nothing that suffers so much from our fluctuating dollar as real estate,—that is in a falling market. To illustrate: If you had a

mortgage on your home for $10,000 dated 1920 and running for 12 years, which would make it come due in 1932, you would be required to pay it with a dollar worth approximately two and one half times the dollar which you borrowed. In terms of the purchasing power of 1926, the dollar of 1920 was worth approximately 64 cents. It is now worth $1.68. In other words you will be required to pay an equivalent of $25,000 to liquidate your $10,000 loan. If the loan had been made in 1926 it would cost you approximately $16,000 to liquidate it now, and so on.

Our taxes have this year been reduced in our city (Los Angeles) possibly 18%, largely through the good offices of our local Realty Board. We have still far to go to make our taxes equal those of, say, 1920, even though we may be paying somewhat less in dollars and cents. The fact is however that most of us are paying more in dollars and cents for our taxes, besides paying them with a dollar worth a great deal more and which is a great deal harder to get. Furthermore there has been no reduction, generally speaking, in the price of public utilities, including water, gas, electricity, or telephone, although the rates were established when the dollar was worth less than half of what it is today.

Our taxes, local, state, and national have multiplied over six times in the last twenty years, so that today more than thirty cents out of every dollar of our national income goes for taxes. This concerns the owner of real property particularly, as the large part of all taxes comes from taxes on real estate.

Indeed "our rubber dollar and iron debts" concern the Realtor most vitally. It is something that the public generally does not understand. Few realize that if they can sell a property for $7,500 today which cost them $10,000 in 1926, or $12,000 in 1920, that they are making money, provided the property has carried itself in the meantime.

To the public a dollar is a dollar. It will therefore be very difficult to put across the idea of a stabilized dollar for a long time to come.

The appraiser however should call attention to the very high purchasing power of the dollar at the present time so as to help ease the blow when the appraisal reveals a very decided reduction in the apparent value of the property.

Present Day Reported Prices Not Reliable

During the present depression, as in other similar depressions sales prices reported by buyers and sellers are apt to be unreliable. They often involve direct exchange of properties, frequently without any money consideration whatsoever. Owners of property instinctively avoid admitting that their judgment had been at fault when they acquired certain properties for themselves or sold them to others. So they "swap" properties, both parties usually putting a fancy price on the respective properties exchanged. It is like the old lady with the $10,000 dog. She insisted that the dog was worth $10,000. One day she announced beamingly that she had sold him. "For cash?" asked the incredulous friend. "No, not exactly," she replied, "I got two $5,000 cats for him."

The mischief of such transactions lies in the incorrect information conveyed to the uninitiated about selling prices of real estate. Other owners are led to believe that the transactions were for cash, with the result that they continue to "hold" their properties, at unwarranted prices, thus contributing to the frozen condition of the real estate market.

Real Estate Ready To Do Its Part

Real Estate always stands ready to yield its utmost, but we must understand its limitations as well as its possibilities. If we buy a small horse on the strength of a statement, made by the salesman, that the horse can pull a hundred tons, which of course he cannot do, it is not the fault of the horse.

So when we expect real estate to produce many times its highest capacity, we are going to be disappointed; but we should not blame real estate, because of our failure to know its limitations.

Is it not time that we get over the idea that telling the truth about real estate is detrimental to it? Quite the contrary. No type of investment can stand the truth better than real estate. However, in order to tell the truth we must know the truth.

May we not here take another lesson from our friends who deal in listed securities. The earnings and conditions of the institutions whose securities are offered to the public are an open book to investors. The earnings of each institution may be ascertained by anyone who desires to find out so that he may be in a position to know whether to invest or to speculate.

"Is there anything of equal importance we know so little about as real estate?" Persisting in recording the consideration involved in our real estate transactions as being "$10.00 and other valuable considerations" does not add to our enlightenment in regard to real estate sales prices, data which we so sorely need.

Exploiters Take Advantage

If real estate could be assigned its logical value, based on its income yield, we should have not only the safest possible investment, but also a comparatively liquid one at all times. There are places in Europe where a man may sell his real estate at any moment at a discount of not over 10 per cent from the price he paid for it. A general acceptance of sound appraisal practice must of necessity precede such a situation, and this involves the education of the general public of what constitutes sound values.

Because investments in real estate and real estate securities are basically so sound, the mortgage racketeer and exploiters have taken advantage of this fact, and have used real estate as a vehicle for their nefarious practice. This has been made possible because of the general inadequacy of knowledge possessed by the average investor, and his seeming unwillingness to take proper counsel in matters of this sort.

As chairman of an investigating committee formed to check the activities of some racketeering receivers of a large defunct Mortgage Co., which committee secured the indictment of said racketeers, I have had an unusual opportunity to study at first hand the real estate mortgage racket which has flourished so prolifically the past few years. Some eighteen million dollars were involved and thousands of defrauded security holders. I am satisfied that if in the first place the investors had consulted competent appraisers and counsellors who understood real estate values, they would not have bought the bonds offered. The bond issues in many cases represented 120% of the actual values of the properties. Not content with this, the Mortgage Co. induced the bondholders to exchange their bonds for stock of absolutely no value. The officers are now serving time in San Quentin. But this does not reimburse the poor defrauded investors. The advertising of the Mortgage Co. had in big letters on its circulars "Ask any Bank or Banker". Our bankers protested, but people bought the 8% bonds nevertheless.

With all the fraud and racketeering connected with these bond issues, those who refused to exchange their bonds for stock are salvaging an average of 40% of their investments. Compare this with the salvage secured from the bluest of listed "blue chip" stock bought on the stock exchange before 1929, where salvage, if any, seldom amounted to over 10%.

Educational Movements

There is a healthy movement all along the line towards a better understanding of real estate and its possibilities. There is, in fact, very little excuse for ignorance today. Universities everywhere are giving short night courses and correspondence courses. Some excellent books on the subject have also recently been published. It is rather a strange fact that authorities who have to do with the dissemination of knowledge pertaining to real estate, have so little recognized the importance of the economic side of real estate study, emphasizing almost exclusively the legal angle. The legal phase is of course important, as it has to do with the security of ownership, while the economic side has to do with the right use of real estate to enable it to yield the greatest return in money or satisfaction to the owner. This economic phase of the subject will be more and more emphasized in the future, as property owners begin to realize the relatively greater importance of this part of the subject.

The present day trend for owners and brokers to get into closer relationship is also a very healthy step. Before long — owners, brokers, builders, material men, the financing and other agencies having a part in developing real estate — will join hands in a common cause.

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Excerpts from Mertzke's *Real Estate Appraising*

"It is only by a separate valuation of the land and the improvements that we can demonstrate whether or not the improvements are properly or poorly suited to the site."

"In order that the combination represented by a house and lot may have the maximum value, it is necessary that the improvements be properly proportioned to the lot and its surroundings. Either too costly or too cheap a dwelling will be worth less than its cost of construction."

"The real cause of the obsolescence of a residence is not the type of occupancy but the gradual shifting of the property from residential to commercial or industrial use. Lower grade occupancy is a consequence of change in use, attracted by lower rentals."

"Market value of dwellings will tend to correspond to their original cost only when: (A) costs of construction remain practically the same, (B) dwellings are well suited to their sites and to the neighborhood, and (C) are sufficiently standardized in style and design to satisfy typical home buyers."

"Increasing building costs will tend to bring about increasing values of buildings, whereas falling costs will tend to result in a decline in the value of buildings."

"In computing the cost of a standard cubic foot of dwellings of a certain type in any given city it is necessary to base the average on a sufficient number of similar houses to assure a fair average figure."

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Condemnations

By Harry E. Gilbert, M. A. I.

CORRECT procedure in the valuation of properties to be taken under the exercise of the power of *Eminent Domain* is of great importance to the real estate appraiser. It is also important to the property owner and the public. Especially, since appraisers differ among themselves and our Courts are not in entire harmony in their methods and decisions, the situation demands and is worthy of thoughtful study on the part of the Realtor appraiser. This is the more urgent since condemnation cases have increased so greatly in number and importance in recent years.

Our cities have grown rapidly; modes of travel have changed; public service corporations have increased in numbers and in scope of operations; all these things, with subsequent changed conditions, have called for a large number of condemnation cases. Probably, the largest number are the result of street openings and widenings for relief from traffic congestion; but there are also thousands of proceedings for acquiring land for public buildings, parks, playgrounds, the elimination of grade crossings, rights of way for railroads, transmission lines, pipe lines, and many other public uses.

All these cases, not only those tried in Court, but the vastly greater number compromised and settled out of Court, require the services of the Realtor appraiser.

Eminent Domain

The right of *Eminent Domain* rests upon the Common Law theory of original proprietorship in the State and is considered theoretically as so much of the original proprietorship retained by the Sovereign power in granting lands or franchises to individuals or corporations. It is a right inherent in the State and necessary to the proper functions of Government. The Constitution of the United States and the Constitutions of the several States provide for the exercise of this right.

It is therefore not a new invasion of the rights of the individual such as we find in matters like building regulations, city planning, and zoning. These latter cases rest upon the *Police Power* which our Courts have had a tendency to broaden as the more complex conditions of society demand. We departed long ago from the idea that a man may use his property as he pleases. The use of property in such manner as to create a nuisance has never been tolerated in built up communities. The individual must be content to have his rights subrogated to the welfare of the community.

Two things are definitely required in order to compel the surrender of private property to the State or its agency under the power of *Eminent Domain*: First, it must be shown that there is a public necessity for the taking of the property; and, Second, just compensation must be paid the owner before the actual taking. The first requirement is in the province of the Court; the second, which involves the amount of money representing just compensation, concerns the Realtor appraiser.

Valuations Differ Greatly

One would naturally suppose that in Condemnation Appraisals where the valuations are likely to be given under oath by the appraiser on the witness stand, there would be no great difference in the figures given by the witnesses for plaintiff and defendant.

Unfortunately, the very opposite is the case. Appraisals for no other purpose differ so widely as those we often hear given by so-called expert witnesses on the stand in condemnation cases.

While some of this difference may be accounted for by the lack of proper and sufficient data and the use of wrong appraisal methods, more frequently, and to a greater degree, I fear, the cause lies in an effort on the part of the appraiser to satisfy a client and a disregard of the sanctity of an oath. An unscrupulous appraiser may rely on the fact that it is difficult to prove that the expressed opinion of a witness is really not his opinion; but it should somehow be brought home to him that he is just as guilty as the fact witness who perjures himself. I can think of nothing that brings our vocation into more disrepute.

Market Value

The term "fair market value" which has had many definitions, judicial and otherwise, must have a practical application in the determination of just compensation in condemnation cases.

Alfred D. Bernard in his book on *Principles and Problems of Real Estate Valuation* gives as the four cardinal factors of value in real estate:

1. Location, which includes access.
2. Utility, capacity as well as kind.
3. Shape.
4. Size.

In my judgment, all of these facts may be included in the second one, Utility, since location, shape, and size are all reflected either in the nature of the use or the intensiveness of the use of a parcel of real estate. The final test of value in any property lies in its use. The oft-quoted decision of Chief Justice Brewer in 1894 in the case of *C. C. C. and St. Louis vs. Backus* gives us the highest authority for the use standard in the determination of value in real estate. These are his words:

> The value of property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual and anticipated. There is no pecuniary value outside of that which results from use. The amount and profitable character of such use determines the value.

The definition of "Market Value", in the Standards of Practice of the National Association of Real Estate Boards, is in line with the above decision.

> The market value of a property at a designated date is that competitively established price which at that date represents the present worth of all the rights to future benefits arising from ownership.

While our Courts generally have used the term "Market Value" in determining the "just compensation to be awarded in condemnation cases, it is quite evident that we must go beyond the market value when such properties as churches, schools, hospitals, or other service properties are taken under the power of *Eminent Domain.* There would be no "just compensation" made to the owner or owners if the award were limited to "Market Value" in such cases.

A church or school may have no greater value on the market than the land it occupies, while its beneficial use to its owners may be many times the value of the site.

In a recent case tried in the District Court in the City of Baltimore in which the United States Government was condemning a parcel of land improved with school buildings belonging to the Johns Hopkins Hospital, the Court admitted testimony under the Summation method-land value as increased by the reconstruction cost of improvements less depreciation, and instructed the Jury that they might disregard "Market Value" as generally defined.

Distinguished from Other Types

There are only minor differences between condemnation appraisals and appraisals made for other purposes.

As to the attitude or frame of mind on the part of the appraiser, it should, within reasonable limits, be one of liberality toward the property owner. This liberality should certainly be exercised within a narrow margin, for "just compensation" means justice to the condemning party as well as to the property owner. At the same time, it should be remembered that the property owner, whether he is willing or not (and often he is quite willing though he pretends not to be) has no choice in the matter, but must surrender his property. Also, real estate valuation is not an exact science and any doubts we may have should be resolved in favor of the property owner.

As a practical matter, this advice to be liberal in your figures, if testifying for the condemning party, is wholly unnecessary, as the witnesses for the defendant and the Jury usually take care of that situation.

When the whole property is taken in the proceeding, the problem is the simple one of appraising it according to its type in the same way as for any other purpose. When only a part of the property, however, is taken, there are two appraisals — one, of the whole property before the taking and another of the portion remaining after the taking and *under the conditions as they will be after the portion taken is put to its new use.*

Difficulties Encountered

These cases call for the exercise of some imagination on the part of the appraiser and frequently involve considerable difficulty. Imagination is required because the appraiser must be able to visualize the property as it will remain after the condemnation work is accomplished. In street opening cases and others involving municipal improvements, he must be able to weigh and measure the good effects as well as the bad effects resulting from the proposed improvements so that his *after valuation* may be fair and reasonable.

Difficulties are multiplied when the condemnation lines cut through a building, taking a portion of the improvement together with the land. In such cases, the value of the whole structure may be destroyed or it may be possible to repair and remodel the building to suit the new conditions. If the appraiser has not the necessary experience to qualify him in this respect, he must rely upon a practical builder for this part of his appraisal.

Special Damages

Special damages to the property remaining may also be caused by (1) a change in the grade of the street affecting ingress and egress. (2) By destroying the plottage value of the lot, resulting in a lower utility for the portion remaining. (3) By cutting off access and interfering with light, air, etc. as in the building of a viaduct. All these problems and many others are frequently encountered in condemnation suits.

Severance Damage

In some sections of the country, our appraisers employ the method of valuing the whole property, then the part taken, and finally the severance damage to the remainder. This method is both more cumbersome and fraught with more difficulties than the comparatively simple "before and after" method.

To my mind, there is no need whatever for the severance value method, as all damages and benefits are included in the more approved method which

is rapidly receiving the sanction of our Court.

Net Benefits

It frequently happens in cases of street openings through unimproved land that the portion remaining is worth more after the street is condemned and opened than the whole lot was worth before and our appraisal must result in a net benefit instead of damages to the owner.

Data To Be Considered

The appraisal of a property under condemnation requires the same data for consideration as any other appraisal. The careful appraiser, especially if he expects to go on the stand to give his opinion of values, will be prepared with all the information at his command to throw light upon the value of the property in question.

He should bear in mind the fact that he will be subjected to cross-examination by a shrewd lawyer who will take pleasure in demonstrating to Court and Jury his utter ignorance of values and unreliability as an expert witness.

He should have a thorough knowledge of the property to be condemned and be able to describe it as it will be after condemnation if a portion only is taken. He should be well-informed as to the purpose of the condemnation and the public improvements to be made. He should know all about the neighborhood. If residential, he must inform himself as to the zoning and other restrictions governing building; the character and social standing of residents; nearness to churches and schools; transportation facilities; trend of values, etc.

If the appraisal is to be made on the basis of sales of properties of similar types, he must not only have accurate information with names of buyer and seller, dates and prices, but descriptions of the properties sold, so that he may make a comparison with the property under condemnation, explaining wherein it is better or worse than the property appraised.

The expert on the stand will be well repaid for any extra pains he may take to prepare himself fully and carefully. If he has seen the property ten times in the last month, I would still recommend that he make another visit on the morning before he goes on the stand.

A Street Opening Case

I have prepared a simple case to illustrate the "Before and After" method in a condemnation for the opening and grading of a Street in Baltimore.

The property to be taken is a frame dwelling house together with a portion of the large lot it occupies in a neighborhood of small two story brick houses.

The location is on the North Side of East Preston Street about three miles from the center of the City, but well within the City limits. The neighborhood is one of small, two story, six room, brick dwellings built in solid rows, each about fourteen feet in width, forty-five feet deep, and occupying lots from seventy-five to ninety feet in depth. The houses on the South Side of East Preston Street, immediately opposite the lot under consideration are of this type. They sell for about $2750.00 subject to ground rents of $60.00, or $3,750.00 in fee.

East Preston Street is well-paved and carries a trolley line leading to the center of the City. The neighborhood is served with all the conveniences and has schools, churches, and small shops within easy distance. The land immediately to the East, West, and North of the owner's property is unimproved.

Description and Value of Improvement

The frame cottage with shingled sides and slate roof is occupied by the owner. It has dimensions of 24 x 28 with a porch across the front and a small porch in the rear. The first floor contains an entrance hall, living room, dining room, kitchen, and pantry. The second floor has three bedrooms and bath. The foundation is of stone. The cellar has a steam heating plant, gas water heater, and laundry tray. The floors and trim of the house are of pine.

The bath has no tiling, but the bath and electric fixtures are of fair quality. The third floor is unfinished.

The house was built about twenty years ago and could be reproduced today for $6,000.00. It is in fair condition; but, in addition to the usual physical and economic depreciation, it suffers additional obsolescence by reason of its being in a community of small brick houses and narrow lots. It must compete with the cheaper dwellings in the neighborhood.

However, it is so fortunately placed on the lot, being only about 15 feet from the east line and 25 feet from Preston Street, that the western portion of the front of the lot could be developed by the owner by building small two story brick houses (its highest utility) while he continued to occupy his dwelling in comparative comfort for many years.

Without going into further details as to depreciation, the house adds $3,750.00 and the frame garage in the rear $250.00 to the value of the land.

Nature and Extent of Condemnation

Cross Street, which is opened and paved South of Preston Street, is being opened North from Preston Street, a distance of about one thousand feet to connect with another East and West street. The condemnation is for opening and grading but not paving.

The property taken is a strip of land 66 feet x 300 feet from the eastern end of the lot and includes the dwelling house and frame garage 16 x 18 feet which lie in the bed of the proposed street.

Description of Lot

As will be seen from the plat, the whole lot A B C D has dimensions of 160 feet x 300 feet and is rectangular. The surface of the lot is uneven, only the portion around the house being used as a lawn.

The average cut to bring the lot to street level is about two feet for a distance of one hundred feet from Preston Street and four feet for the remaining portion of the lot.

This property being residential, I use the comparison of sales method of valuation both **before and after.** Several sales of recent date and of similar land in the neighborhood and sales in other neighborhoods of the same character show a unit value of $40.00 per front foot based on a lot 150 feet deep (our standard in Baltimore).

The computation is as follows:

Value Before

Lot 160 ft. x 300 ft. on $40 unit for Preston Street gives rate of $50 per ft. 50 x 160		$8,000.00
Less grading required to bring to street level 160 ft. x 100 ft. x 2 ft. equals 32,000 cu. ft. or 1,185 cu. yds. at $.50	$ 592.50	
Plus 160 x 200 x 4 ft. equals 128,000 cu. ft. or 4,740 cu. yds. at $.50	2,370.00	2,962.50
Total Grading Cost	$2,962.50	
Present Land Value		$5,037.50
Cottage and Garage add		4,000.00
Value before		$9,037.50

Value After

For development for highest utility, I have divided the lot as shown on Plat. Lot 100 feet deep on Preston Street based on $40 unit gives rate of $35.00.

Lot 94 x 100 ft. at $35 per foot		$3,290.00
Less grading 94 x 100 x 2 ft. equals 18,800 cu. ft. or 696 cu. yds. $.50	$ 348.00	
Lot on Cross St. 200 x 94 ft. 94 ft. depth on $30 unit (Cross St. unpaved) gives $26 rate—26 x 200 equals		5,200.00
		$8,490.00
Less grading 200 x 94 x 4 ft. equals 2,785 cu. yds. at $.50	1,392.50	
Total grading cost	$1,740.50	1,740.50
Value land after		$6,749.50

Net damages, $9,037.50 less $6,749.50—$2,288.00.

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The Influence of Taxes Upon Real Estate Values

By George L. Schmutz *and* Loring O. McCormick

INASMUCH as Real Estate Values tend to be set by the Net Income produced, it follows — that anything which interferes with the quantity of net income will, *ipso facto*, induce concurrent changes in the value thereof.

Changes in the *net income* may be caused by, — either changes in the quantity of *gross income*, or in the quantity of *expenses* and charges, or both. Thus changes in the expenses of property will induce concurrent changes in the value thereof, all other conditions remaining the same. Therefore, Taxes being an item of expense, and tending to change downwards comparatively slowly, it follows that unchanging Taxes and a declining gross income will cause a decrease in net income, accompanied by a corresponding decrease in Warranted Price, and finally in Market Price. Conversely, a decrease in Taxes, all other conditions remaining the same, will bring about opposite effects, i. e., result in increases in Market Prices. Obviously then, Taxes have a very positive effect upon the price of realty — either beneficial or otherwise. In this regard, it should be borne in mind that it is not the slight annual variations in the tax levy, but rather the general level of taxes over a period of years that brings about marked changes in land values.

The Factors in the Production of Gross Income

Before proceeding with this discussion, it will be necessary to point out that there are four factors employed in the production of gross income from realty, namely, — (1) Labor; (2) Organization; (3) Capital; and (4) Land, and that the costs of the first three of these must be paid before any of the net income can be imputed to the fourth — Land. For illustration, in a furnished apartment house:

1. The costs of **Labor** have the first claim upon the income produced — both by statute, and by economic laws. Labor is represented by — manager, clerks, maids, janitors, gardner, engineer, etc. If the costs of labor are not paid, the supply thereof will cease. Even slaves must be fed.
2. The costs of **Organization** have the second claim upon the gross income. By organization we mean those factors necessary to coordinate the offices of Labor, Capital, and Land, such as — taxes, insurance, public utility services, e. g., telephone, water, gas, electricity, laundry, and the like.
3. The charges of **Capital** have the third claim upon the income produced. By capital we mean the money invested in the structure, equipment, and furnishings—but not in the land; by **Capital Charges**, we mean interest on the money so invested, and the eventual return of such money — generally, but inappropriately, termed depreciation
4. The rent of **Land** comes next in the order of preference. It has the last and least claim upon the gross income, and can be paid only after the costs and charges of the other three factors have been satisfied. Should the costs of any of the first three factors be not paid, then the supply thereof will cease. Labor will not work unless its wages are paid; public utility services will be discontinued if their costs are not met; capital will not be available for investment unless there is assured a reasonable rental for the hire of money, in view of the hazards involved in the use of the funds. Thus, the value of Land tends to be set by the net income imputable to it—**after all other expenses and charges have been paid.**

Effect of Changes in Percentage Distribution of Gross Income

During times of economic stability, when the factors in production are in "structural alignment", or "balance", there is a well defined percentage of the gross income that is imputable to each factor for the part it plays in production; and any change in the percentage distribution of gross income brings about concurrent changes in the value of the productive factors — particularly of Land. It thus becomes apparent that the market price of land will fluctuate through wider limits than any of the other factors, i. e., the percentage changes in the downward price of land will be greater than the percentage changes in the costs of labor, or organization, or of capital. Because of this condition, the effect of a change in the quantity of Taxes may be felt solely by land, inducing a greater percentage change in the value thereof than the percentage change in the quantity of taxes levied.

Normal Distribution of Gross Income

The tendency of the productive factors to exact a certain percentage of the gross income is well illustrated in figures compiled by the Cleveland Trust Company which shows that, — "for more than 40 years the total amount of money paid to the railroads for the carrying of freight has averaged a little more than 10% of the wholesale value of all the movable goods produced by our factories, forests, farms, and mines". The same principle applies to the costs of labor and the other factors, including Taxes, i. e., the normal tendency is for Taxes to exact a certain percentage of the gross income produced; and when Taxes exact more than their proportionate share, a lesser net income is imputable to the land, with a consequent decrease in the market price thereof.

Effect of Decreasing Gross Income

For illustration, in a hypothetical furnished apartment house, let it be assumed that the gross income has declined from $25,000 in 1929, to $20,000 per year in 1930, with changes in costs as follows:

	Annually			
	Year 1928		Year 1930	
Gross Income	$25,000 =	100 %	$20,000 =	100 %
Costs and Charges				
1. Labor	$ 3,000 =	12.0%	$ 2,700 =	13.5%
2. Organization				
TAXES	2,000 =	8.0%	2,000 =	10.0%
other expenses	5,000 =	20.0%	4,800 =	24.0%
3. Capital	13,500 =	54.0%	10,500 =	52.5%
4. Land	1,500 =	6.0%	None	None
TOTALS	$25,000 =	100.0%	$20,000 =	100.0%

In the above case, if we assume that the productive factors were in balance in 1928, i. e., that Labor should normally receive 12% of the gross income; that Taxes should receive 8%, etc., then — in 1930 we find a condition of "imbalance" existing in which Taxes are receiving 10%, being 25% (2/8ths) more than its normal share; that Capital is not receiving an adequate return; and the surplus to Land has disappeared. Thus, the failure of Taxes to maintain its normal ratio with the gross income produced — 8% in this case — results in $400 per year being absorbed by Taxes at the expenses of Land which, on an 8% basis, reflecting a $5,000 loss in the capitalized value of the Land, if the land value be determined on a residual basis. Therefore, the failure of Taxes to decline concurrently and proportionately with the gross income has, assuming this condition continues for an indefinite period of time, caused the dissipation of $5,000 of Land Value, and the other $13,750 of land value, as reflected by a capitalization of residual land earnings, (net income of $1,100) has been dissipated by the failure of the other items of Labor and

Organization, concurrently to decline at the same percentage rate as the reduction in the gross income. Under the conditions as above mentioned, where no surplus appears to Land, it becomes obvious that vacant land will not be employed (improved) ; and a substantial impairment of the capital invested in improvements on land is experienced, the result of which will be a diminution in construction volume, accompanied by a "freezing" of the market, and a great recession in market price until such time as the factors in production again attain balance, and a surplus again reappears to Land. It is thus seen that the tax item is only one of several items needing reduction, e. g., labor and the costs of gas, electricity, water, telephone, insurance, etc.

Taxes Do Not Recede Proportionately

However, considering the disequilibria occasioned by the greater percentage decline of the gross income, reference to the graph discloses that —in the case charted, the gross income has declined at a much faster rate than taxes; and that the percentage of gross income absorbed by taxes has been constantly increasing. These graphs are plotted from actual book figures or a four family flat building erected in the Fall of 1923.

CHART I.

ACTUAL GROSS INCOME & TAXES

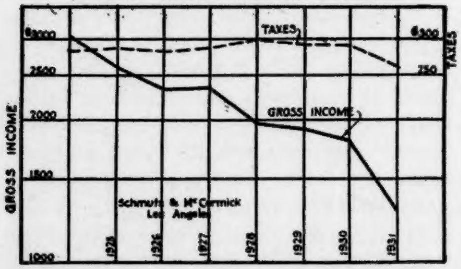
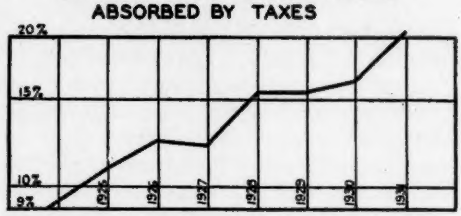


CHART II.

PERCENTAGE OF GROSS INCOME ABSORBED BY TAXES



Attitude Towards Taxes Depends Upon Conditions of Market

It is only during a recessive market that the public becomes "tax conscious", when many sale negotiations fail of fruition, ofttimes because of the tax burden. During a rising market, however, when transfers are frequent and prices are increasing, the tax levy is a matter of no moment and scant consideration is given it. The public clamors for better governmental service, irrespective of cost, and worries not about taxes, nor even maturing mortgages, believing that should the burden become too irksome or onerous a sale can be readily effected and relief gained thereby.

Market Prices Easily Followed Upward — But Not Downward

Taxes are based upon assessed valuations, and assessed valuations are predicated upon sales. During a rising market, sales are frequent and at succeedingly higher prices, and market prices are easily estimated. During a falling market, however, sales are few and far between and estimates of price based upon previous sales (made during a higher price level) are usually too high. Briefly, appraisers and the public at large can follow market prices on an *upward* swing with a reasonable degree of accuracy, but fail to keep step with them on a *downward* swing; and this tendency to overprice property under such conditions is partially responsible for over assessments of realty.

Owners Immediate and Remote Control of Expenses

The owners of land and capital will not, after a sharp reduction in the general price level, continue to produce or sell the use of space for less than cost, for any great period of time, else bankruptcy would be forced upon them. Reductions are made in management and labor costs, advertising, upkeep, and repairs, which are cuts within the immediate power of the owner to accomplish. In the case of public utility services and taxes, however, we find that these costs are controlled by governmental commissions, and that utility rates are set—not by supply and demand—but by governmental boards or commissions which regulate them.

Resistance Toward Reduction of Costs

The owner may go on for some time without great complaint, and with a feeling of impotence to change the costs of government, or of public utility services. After several years, however, he begins to recognize that—while everything else has moved down in price, and labor has been reduced in nearly every other competitive field, wages and salaries in the public utility field and government still remains at old levels. As a result, the property owner and voter begins to feel that there is something radically wrong, and that one class of persons and undertakings are, by the chain of circumstances, being especially favored above others. As a result, he bands together with other property owners and tries to get telephone and other utility rates reduced, because of reductions in the duplication costs of such utilities upon which rates are based; and is probably met with a decision on the part of the commission, or court, that conditions are abnormal and the prayer for revision in rates is denied. Feeling that such a decision is unjust and unwarranted and that the condition, with regards to public utility costs and taxes, will remain, the same as long as the present governmental incumbencies prevail, he immediately starts campaigning and lends his support to those who promise a reduction in governmental expenditures and closer control of utility costs in order that these costs be reduced in proportion to other general reductions in commodities and services. This means of action, which is a slow one at best, is stubbornly resisted by governmental employees and employees of public utility services, who constitute in excess of one-sixth of the total employment of the nation. However, this mode of action is the only effective one that can be employed and, in the long run, the only means of restoring value and desirability to the ownership of realty. It must always be borne in mind that in this economic world a condition which exists whereby organization costs exact more than their just and rightful proportion of the gross income from property is prejudicial to the welfare of the nation and its populace, and that under such conditions the populace itself must ultimately force the revision toward a more equitable basis.

Conclusion

Thus is it seen that the failure of Taxes (and the costs of the other productive factors) to decline concurrently with gross income, on a falling market, changes the "economic pattern", brings about a disproportion in the distribution of the gross income to the productive factors in which Land fails to receive its normal share, and thus decreases or entirely dissipates the capitalized land value. Should this condition persist, not only is the Land value wiped out, but an insufficient return is made to the structure, with a consequent loss in the capitalized values thereof, and either or both are accompanied by a "freezing of the real estate market."

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Industrial Property

By W. G. Burchfield

THE "Jack of all Trades, Master of None" may have flourished and prospered in the days of the stage coach and the sailing vessel, but in the modern business world he is as hopelessly out of date as are those old time vehicles of transportation.

Business and the professions are becoming more and more a matter of *specialized* service; and nowhere is this more noticeable than in the matter of appraising property. As we have specially trained Industrial Realtors, Realtor Brokers, and Farm Land Realtors, each using a different technique, so we must have appraisers using different methods for the different kinds of real property.

Appraising industrial property is a distinctive type of appraising. Into this type of appraisal work enter many intricate and highly specialized features not found in appraising commercial, retail, or residential property. The appraiser of industrial property must have a comprehensive knowledge of every valuable feature that lends itself to the convenient and profitable operation of an industry occupying, or that can occupy, any given site; as well as the ability properly to value all of the improvements with reference to their adaptability to the use for which they are, or may be, used. This includes machinery, track arrangement, building arrangement, for the highest efficiency in processing, manufacturing, or handling of the products of the business.

What Do We Mean By Appraising?

This question is best answered by the "Standards of Practice" as given to us by the National Association of Real Estate Boards for Realtor appraisers. "The word appraisal means the process or method by which is derived an opinion of the value of property."

Not a haphazard, "rule of thumb", guess, but an estimate or judgment arrived at by a process of research, contrast, and comparison; and set down in a brief, giving a certified statement of the estimate, and the reasons why this amount was judged correct.

Appraising is the process by which this estimate is reached.

Concept of Value

Again I refer to the "Standards of Practice" which state: "The value of property is the present or discounted worth of all future benefits arising from ownership."

However, in the appraisal of industrial property the definable or measurable value is often so merged in the general operation of the industry that it becomes very difficult to segregate it from the complete setup of the business. It is like attempting to place a separate value on the wheels of a car; they are inseparable and indispensable parts of the car. Industrial property, like industrial machines, are actual or potential parts of the industry.

However, as appraisals have become necessary in the conduct of business, and must be made by someone, it becomes the province of industrial appraisers to do this class of appraising, for which they should specially equip themselves.

What Is Industrial Property?

Industrial property is that type of real estate, improved or unimproved, that is used or may be used economically in the processing, storage, or

transportation of economic goods. Not only mills, foundries, power-houses, warehouses, etc., but terminals, railroad rights-of-way, power line rights-of-way, and all other parcels of real estate that may be used or are used by industries in processing, storing, and transporting goods are properly classified as industrial property.

No site or plant has any intrinsic value in itself as industrial property except as it can be used economically as a productive unit in manufacturing or distributing goods or services. The first task of the appraiser is to determine whether the property in question is, in fact, industrial property. For example: a warehouse with display facilities, and used partly for storage and partly for retail, if it can be used economically solely for warehousing and has all of the facilities necessary for this use, is classed as industrial property.

But a large retail store like that of Marshall Field and Company, of Chicago, even though used partly for retail and partly for storage, receiving its goods by rail from a spur track, running through a tunnel to its basement, could not by any stretch of the imagination be considered anything but retail commercial property.

Types of Industrial Property

1. Improved industrial property includes
   - A Special use industrial property such as foundries, cotton compresses, oil refineries, packing houses, lumber mills, and other types of improvements designed for specific uses, and
   - B Standard buildings, warehouses, etc.
2. Unimproved Industrial property. This may consist of
   - A Large tracts for heavy industrial use, with rail, water, and highway facilities, or with rail and highway services only.
   - B Smaller sites in districts where industries have naturally grouped themselves, and predominate; as those along railroads or within cities where switching service may be enjoyed.
   - C They may be small tracts comparatively isolated from existing industries but possessing advantages that would make them adaptable to use as industrial tracts, or they may be
   - D Smaller parcels of land in well-planned, strictly industrial districts or subdivisions where conditions exist that lend themselves to industrial development, such as the Niels Esperson Industrial District in Houston; a large area, part of which has been laid out, improved with trackage, public utilities, and streets designed for industrial use, and is now being occupied rapidly by industries, — and part of which is now being planned for deep water frontage with belt railway service, ideal highway conditions, labor supply, and all other factors contributing to a perfect industrial center.

In appraising industrial property there are many features and problems that are not met in any other class of appraising; features that necessarily enhance or depreciate the real value of a property, and yet are not apparent to the casual observer.

Misplaced Improvements

Sometimes an industry, through a misinformed purchasing agent, or an overzealous broker, may purchase a site or a building where the excessive operating expenses amount to more per year than a proper location would cost. Unfavorable switching rates, poor trucking conditions, and other problems of distribution sometimes make operation so expensive as to reduce the intrinsic value of the entire plant.

I have in mind a plant that was designed for the manufacture of automobiles. It is located near a southern city, and was, when it was built, more than three miles from the nearest labor supply, with no public transportation service. The land and buildings, when completed, cost well over $400,000.

The company that built it went into bankrupcy after it had manufactured about 50 cars. This property has been for sale for more than twelve years but has not yet been sold. The trustees received an offer of $125,000 about two years ago, which they refused. Now it can be bought for $85,000; which is probably $25,000 more than it is worth. Yet there is no doubt but that it would cost at least $250,000 to replace the improvements.

Over Supply

Suppose that from a city once the center of shoe manufacturing, a large percent of this business has migrated to other towns more favorably located, leaving a number of unoccupied factory buildings. These buildings were well-planned, well-constructed, and, if the shoe industry were still flourishing in that city, would justify an estimate of full replacement value, less depreciation for age and possibly some slight obsolescence.

But because of the oversupply caused by the flight of business to other centers, there is no demand for them for the use for which they were designed. Therefore they must be appraised at a depreciated figure in accordance with such market demand as may be found in other lines of industry; and the cost of remodeling these buildings to meet the requirements of such other use must also be deducted from the present replacement value. This is a condition that is very common in appraising industrial property.

Let us again suppose that in an industrial city there is a reasonably limited number of available industrial sites, at fairly well-established prices. Then a new railroad or an extension of an existing line, or the improvement of a navigable waterway opens up a large area of previously inaccessible sites, just as desirable. In this event we have created an oversupply of industrial tracts that immediately affect the market value, if not the intrinsic value, of every site heretofore available, the previously accepted value of which must be accordingly reduced.

Transportation

Industrial sites with rail and highway service only are so numerous in the average city that their prices are highly competitive. But in the case of this type, belt railway service renders a site more valuable to industry.

An industrial site located on navigable water is much higher in value than adjacent sites not possessing water frontage. The degree of value of water frontage depends upon whether or not it is on deep water, usable for ocean traffic, or on water capable of being used only for barge service.

The value of water front property is affected up or down, depending upon its shape and topography, the amount of dredging necessary to prepare it to receive wharf construction, etc.

Sometimes an industry wishes to be on a waterway for no other reason than that it provides a convenient means of disposing of waste water. Sometimes the water is used only in condensers, as in a power plant. But always when an industry desires to locate on a waterway it has some reason, and will gladly pay more for such a site than it would for a site without water frontage.

Railroads may be built almost anywhere, or even moved; but waterways have the nature of being fixed and immoveable, and are comparatively few in number. Houston has 17 railroads and can build more if needed, but she has only one ship channel. This element of scarcity gives sites located on waterways a monopolistic feature and adds to their market value.

Municipal Improvements

The adequacy or inadequacy of municipal improvements and public utilities have a decided influence on the value of industrial property.

Trend of Industrial Development

The trend of industrial development is usually toward the sections offering the greatest advantages, either natural or artificial; and is an indication of prospective or future increase of value in these growing sections. Property located in these growing districts is more readily marketable, and therefore more valuable. This fact is recognized by city planning commissions; and sections adapted to industry are zoned as industrial property.

Neighborhood Character

The day of the prison-like, forbidding surroundings for a factory is over. More and more industries are seeking locations with clean and attractive environment; where their employees will be more comfortable and contented, and that will not be repulsive to their customers. Therefore the character of the neighborhood has a decided effect on the value of the site.

Labor Supply

Labor is of prime importance to all industries, for the simple reason that industries can no more be run without it than they can without transportation, consequently, the supply and character of labor available to an industry affects the value, favorably or unfavorably, as the case may be.

Lack of Standardization

Another peculiar problem in appraising industrial property is the lack of standardization. With the exception of loft and warehouse buildings, there are almost as many different types of plants as there are types of industries. What is just suited for one could not be used by another. Sometimes the appraiser is forced to give buildings only their salvage value, and appraise the property as vacant; adding only what can be realized by wrecking the improvements. This is usual in the case of buildings or plants that were designed for one specific purpose, for which they are no longer needed, and cannot be used economically for any other.

For example, an oil refinery near Houston, costing more than $1,000,000 when completed (including the land) was sold for little more than the land value, to one of the major oil companies. Because the methods of refining oil change so rapidly, the equipment of this refinery had become obsolete, though only a few years old, and were junked by the purchasers, who are using the site, which is shipside property, as an oil terminal for export purposes.

Not only does each plant offer its own peculiar problem, but this is true also of the unimproved sites. There is little conformity in size, shape, or topography. Each must be considered by itself.

The Appraising Process

To arrive at a fair valuation of any real estate, the more investigation that is done for discovering evidence as to its value the more nearly accurate will be the appraisal when finally finished.

No longer do appraisers make "horseback" appraisals, or attempt to arrive at an opinion of the value of a property by simply looking at a map to learn in what section of the city it is located, or even by driving by and looking at it superficially.

The careful appraiser will determine by fullest research and investigation every feature, such as have already been mentioned, which has any effect on the economic value to any one or more classes of industries.

First of all an appraiser of industrial property should secure or make for himself a work sheet which should list every known item that will tend to enhance or depreciate the value. As few industrial properties are alike, it will be found that a work sheet will contain many items that are not applicable to the property being appraised. However, it will operate as a reminder and guide in covering those items of importance that do apply.

When industrial property is to be appraised, the appraiser should proceed about as follows: Consult a map to learn its location in the city with reference to streets, railroads, public utilities, its proximity to the business district, etc. He should have a plat of the property showing its shape and dimensions, its street frontage, track arrangement, and water frontage if any. He should have, if possible, plans and specifications of all buildings and improvements. With a work sheet, map of the city, plat of the land and plans and specifications of the improvements, the appraiser is now ready to go to work.

When an industrial property is leased or rented, and an appraisal is made on an income basis, then the process follows the usual procedure in appraising income property; but industrial property, except loft buildings and warehouses, is rarely leased, so we do not have an income as a basis for appraising. The income is on the operation of the business, not on the plant.

The appraising of industrial property, then, except as above mentioned, may be said to be almost invariably a procedure of comparison and research. Research should start with the history of the property being appraised; all recorded transactions with reference to the property that can be found; showing sales; leases; mortgages; judgments in suits; tax assessments; asking prices; offers; and, as far as obtainable by inquiry, the attitude of informed citizens as to their opinion of the value.

A check should be made of similar information regarding all adjacent property of similar character. The results of these investigations as above mentioned, plotted on a composite graph, will show the trend of values and help to establish a reasonable valuation.

When the graph method is used, in estimating the value of an industrial property, it is necessary to go back several years, preferably not less than ten, in order to cover a sufficient number of transactions to show a definite trend. This graph will not only indicate the present value of the property but will point to what may be anticipated in the near future, provided there have been enough transactions at past dates to indicate a definite trend. That trend may be up, or down, or level.

The most dependable corroborative evidence, by far, are recent sales and leases of nearby comparable property. Where these are not available, the next best indicators are sales and leases of surrounding properties which are not comparable, but which can be used as a basis of determining, by comparison and contrast, the market value of the property in question.

Where the appraisal deals with a standard industrial building on a well-located site, the property must necessarily be appraised by the summation method, and this result checked by comparison with any comparable properties that might have been sold or leased within a reasonable time. If the buildings are not standard, then the cost of alternation necessary to make them standard must be deducted from the replacement value, and considered as obsolescence.

After an appraiser has completed his research and compiling of eviden-

ces of value, and has reached his decision or estimate as to the value of the property, he should prepare for his client a full, complete, and comprehensive brief or report, showing his findings, the reasons for his conclusions, and his methods of arriving at these figures.

Nothing can ever make appraising an exact science so long as opinions differ. At best an appraisal is only an estimate of what the appraiser, in view of the evidence found and submitted, believes that possible users and buyers think the property is worth, whether he is seeking the market value, the investment value, or the service value.

The more thorough, careful, and complete the research, the more nearly accurate will be the result. The margin of possible error is reduced as the skill, knowledge, and judgement of the appraiser is increased. A conscicencious appraiser is always striving to reduce this margin, and to arrive, as nearly as possible, to the true value of all property submitted to him for appraisals, without fear or favor.

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Selling Prices

The most important single guide that appraisers use in estimating the value of vacant lots, are the selling prices of similar lots. In doing so of course the appraiser assumes that if a number of similar lots sell at substantially the same price, they are all of practically the same value.

This is not always a correct assumption, however, as can be shown by citing various instances in which selling prices of other lots may be misleading. For example, if a given lot were sold at auction for taxes or if the owner for any reason was obliged to sell quickly at any price he could obtain, the selling price might not be a true indication of the value of the property. On the other hand a buyer may have a special reason for wanting a particular lot, and be willing to offer more than the ordinary market price in order to secure it. in which case again the price paid would not properly reflect the fair market value of the property. It goes without saying, of course, that since price quotations are frequently erroneous, care must always be exercised to make certain that the figure quoted is correct.

Boom prices or prices that are the result of high pressure salesmanship are often excessive and of a temporary nature, subsiding after the enthusiasm of the selling effort has passed. It is a very common fallacy to assume that land values never fall, and that prices once paid can always be realized later. Thousands of land purchasers have learned to their sorrow, however, that this is not true. Land values fall whenever any of the factors that brought them about disappear and are not offset by new value creating influences.

Since values of vacant residential lots are most commonly based upon the selling prices of similar and nearby lots, it is important also that the appraiser be sufficiently familiar with the ordinary market values of lots, similar in character and quality to those in question, so that he will not be misled by the selling prices of a few lots which for some reason or other may be unusually high or low.

—***From the National Association of Real Estate Board's course on Real Estate Appraising.***

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Corner Influence

The Problem

"In appraising an improved business corner, what portion should be considered as corner influence? Take for instance, a business block, the inside unit value being $3,250.00 per front foot on the main business street and $500.00 per front foot on the side street. The corner store has a 17-foot frontage and is part of an 87.37 ft. frontage, the entire property being owned by the same party. The building has a frontage of 87.37 out of which the corner store occupies 17 ft. What portion should be figured as corner influence? Should we consider the 17 ft. as the entire corner influence or 50 ft.? Just what relation does the side street unit value of $500.00 per front foot have on arriving at the correct corner influence? The dimensions of the properties are as follows:

Main Street frontage.......	*87.37'*
Other Stores	*70.37'*
Corner Store	*17'*
Depth of Property along State Street	*104'*
Inside Unit Value—Main St...	*$3,250.00*
Unit Value—State St........	*500.00*

Discussion*

Frederick M. Babcock, Ann Arbor, Michigan: There is no satisfactory way of answering the question which has been raised. The question is based upon a method of valuation which assumes that the value of a corner lot is necessarily derived from established unit front foot values and from the geometry of the lot. It therefore presupposes that the building is not involved and that a fractional appraisal of the land is required. There is no reason to presume that the distance over which the value influence of a street intersection operates is dependent upon these factors.

If formula methods of comparison are used and if the unit values have been established, then the amount of corner influence will depend entirely upon the rules of the system used. Of course the various systems differ considerably. So far as I know, none of the systems takes into account any of the features of the building. None of them takes any cognizance of the fact that the corner store actually has a frontage of 17 feet.

There is no rule which can definitely designate the distance over which corner influence extends as 25 feet, 50 feet, or 100 feet. In fact many valuators will question the validity of using formulas for such a purpose. If the method of valuation utilizes an income process which makes the land value residual under a hypothetical building, then there is no occasion to give consideration to the corner influence as though it were an isolated factor. Such a process determines a land value and includes consideration of all of the elements which contribute to the land value. Corner influence is involved but is not isolated.

Cyril R. De Mara, Hamilton, Ontario: We have had the question brought up as to how far corner influence extends, in giving expert testimony. There are some rather specific questions to consider in the problem. I am going to ask you how many appraisers here in valuing the corner consider that corner influence goes in 100 feet if it is all under one ownership? If not, how far in should it go? I am taking a typical down town corner where a store extends as far as 100 feet in the average case.

On that point I think the plottage factor comes in, and I think that answers the question of the last lot prop-

*This discussion is taken from the proceedings of the Institute at the Convention held in Cincinnati, June 29-July 1, 1932.

osition. It is like having a fountain pen without a nib. The nib is not worth $3.00 but the pen is not worth anything unless it has a nib to put into it. The nib might only be worth seventy-five cents.

Ayers J. du Bois, Hollywood, Calif.: It may be that the $500 figure has no relationship at all to the amount of corner influence. If you can discover to what extent the increased depth results in increased value you will be able to find a point in the depth of a lot at which a succeeding foot of depth will be equally valuable if figured from the side street at $500 or if figured from the front street at $3250. You might find that the point would be such that that depth would not come in until it got to three or four hundred feet from the main street, in which case the $500 unit has no effect whatever. But the corner lot is more valuable than an inside lot in this case. The corner lot has the added advantages of light, air, ventilation, and sunlight which might add to it a much larger amount than the $500 value on the side street.

Mr. De Mara: The Kresge Company purchased a location in the city where my home is for $462,000, a frontage of 60 feet, a rearage of 89 feet, and a depth of 137 feet 4 inches. The front foot value in that block is approximately $6,000 a foot and the side street is about $500 a foot. It is a narrow street one block from the main corner, and the side street affords, as this gentleman said, air, light, and access only. There is no pedestrian value there. It has one-way traffic. The corner value has not come down. The side street gives them some window display and the opportunity to put a doorway up to their offices.

Mr. du Bois: The distinction is to be made between corner values and corner influence. What is the increment of added value in this corner by virtue of its being a corner lot rather than an inside lot? While the corner lot always has corner value, an inside lot may have a corner influence by virtue of its proximity to the corner.

E. J. Maier, Newark, N. J.: We recently had a case in which the property was valued at approximately $2,000,000 where there was about $7,000 foot frontage and about $3,500 foot side street frontage. In giving testimony in a condemnation proceeding it was necessary to break down the values to show the influence of the corner. I agree with Mr. Babcock in finding the value of the whole, but we are asked on cross examination to break that down. This building had three street fronts with two corners. We arrived at a value which was far in excess of the front foot values. In other words, instead of having $7,000 a foot value we may have had ten or eleven or twelve on account of the corner influence. It seems to me that this question of corner influence is very important because we are very often asked to break it down and to show how we build it up to a $7,000 front foot value, or some other value, which is all inclusive.

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Gasoline Service Stations

Paper* by James D. Henderson, M. A. I.
Boston, Massachusetts

The Problem

"Is there any Standard Practice in appraising Service Stations or Gas Stations?"

THE gasoline filling station is a retail business establishment. Consequently, the gage of its value is its gross volume of sales—the same gage of value as is applied in determining the value of any retail location. Off-hand then, one would say that the valuation arrived at would be determined by the consideration of factors which influence sales.

It is obvious first that the location must be upon a highway where motorists pass or in a neighborhood where automobiles are owned. It is important that the appraiser of the new location should have some idea of the purchasing power of the location. In Massachusetts, where there are registered 1,002,533 cars, a gasoline tax was paid in 1931 on 568,582,000 gallons of gasoline, which indicated an average consumption per car of 568 gallons. It has been estimated that the country's average is 560 gallons.

In determining the value of a local station, it should be a simple matter to determine the number of automobiles owned in a locality and in this way determine the probable consumption of gasoline. By distributing this gallonage among existing stations and using a rental index of 1 to 1½% per gallon, the appraiser can readily determine the maximum rental value of the location and finally the capitalized value of the land for filling station purposes.

Experience has shown that filling stations on the right hand side of a road approaching a city or amusement park are not as profitable as those on the right hand side of the road leaving the same city or amusement park. This is due to the fact that motorists prefer to reach their objective to keep their engagement and to re-fuel at the beginning of their journey. They will not cross to the left hand side of the thoroughfare as this requires interrupting traffic both to get to the other side and return to their own side of the street.

Locations adjacent to railroad crossings or busy traffic intersections are risky, due to the fact that sooner or later railroad crossings will be abandoned by raising or lowering the grade of the street and a similar possibility exists at traffic intersections. If the grade of the street is changed to carry one thoroughfare over the other, the station loses 50% of a theoretical purchasing power. If traffic at this point is regulated by traffic lights, the purchasing power is lessened by the desire of the motorist to beat the lights.

So many factors may affect the success of a gasoline station, however, that the appraiser must in forming his judgment proceed along different lines than he might ordinarily use in arriving at a value of other forms of investment property. In the case of gasoline filling stations, he must be careful to consider the value of the land for other purposes to which it may be put without attempting to forecast the business of a location and thus base his value upon such theoretical rental return. By so doing, he is entering the realms of the gasoline business. This should be left to the promoters of the enterprise, permitting them to place such premium on the location above

*This paper was presented at one of the Convention sessions of the Institute in Cincinnati, June 29-July 1, 1932.

its intrinsic worth for other practical uses. All these are pitfalls which the competent location man has learned to avoid.

We are prone to consider the association or connection of real estate with the marketing of gasoline as being tinged with gold. We point with pride to the fact that of the 35,800,000 automobiles in the world, 26,500,000 are in the United States. We argue that in 1931, when other industries were suffering great loss of business volume, the consumption of gasoline declined only 4.26% from the consumption of 1929. But the answer to such optimism is that there were in the United States in 1929, 317,000 retail outlets of which 125,000 were drive-in stations, 53,000 were garages and 140,000 were curb or roadside filling stations. In other words, there was one retail outlet for every 84 cars owned in the country with an average gallonage per year per station of 47,000 gallons.

Many of these stations have come into being not through economic need but rather to satisfy the incessant desire of the marketing department to blanket a competitor or to create an outlet for the great over-production of gasoline manufactured in our country each year.

The covetous eyes of taxing authorities upon the gasoline industry, increasing the tax on gasoline in many parts of the country each year; the establishment of two and three filling stations in a neighborhood warranting but one; the competition of independently owned stations selling unbranded or "bootleg" gasoline; the building of super-express highways tending to speed traffic; the building of overpasses and under-passes as traffic points; the building of by-passes diverting traffic around residential and business communities; the element of personal management . . all these factors lay heavy toll upon the gasoline station and make undependable any judgment or forecast that the appraiser may attempt along the line of gallonage, or to depart from the appraisal of a location as a straight real estate proposition.

Moreover, the marketing of gasoline is still in a transitional stage. Over-night developments may make sweeping changes in its character and methods. For instance, there will be found in the advertisements of the new model of a popular priced automobile the fact that the gallonage of its gas tank has been increased from 10 to 20 gallons, thus permitting a longer journey without intermediate fueling. The owner of one of these cars can now make his return journey, under ordinary circumstances, without intermediate fueling,—another body blow to the rural roadside stand.

This appraiser, therefore, recommends as a standard practice for appraising gasoline stations that the value arrived at be predicated upon such values as the client might expect to receive for the real estate in the open market for other uses; thus if the station proves unprofitable because of any of the factors already cited or yet unborn, it may be disposed of at approximately the appraised value.

It may be well, in addition, to point out the hazards or advantages of the location for the sale of gasoline, such economic factors as may suggest themselves to the appraiser, but terminating the appraisal with the reminder that the client after all is the best judge as to what premium he should pay over the appraised value for the location as a marketing place for the sale of gasoline.

Discussion

Ayers J. du Bois, Hollywood, Calif.: I do not fully understand what Mr. Henderson might have had in mind in

his concluding remarks there. I know out in California where we have long distances and are accustomed to long distances there are rural regions where all around is nothing but farm land, and it might even be desert land, but there may be certain points along the highway where we find a Richfield station, for example, with comfort station facilities. Well, if you want to value that site for any purpose except that of a gasoline service station, it would just be ridiculous. For that purpose it might be worth several hundred times the value of adjoining property.

So if Mr. Henderson means that you should disregard its value for that purpose, I would disagree with him. Its best use is for that purpose and I believe that is the basis upon which to place your value.

The business of selling gasoline is certainly here to stay. It is a permanent business, but the conditions under which the product may be sold vary from time to time. We now have the picture of the major companies meeting the independent bootleg companies, and consequently the sites which are least desirable are going out of business because the major companies have the superior sites. When they take away the price competition which has given the independents an advantage, they immediately put him in the discard, and all of those stations go out of use.

Wayland P. Cramer, Camden, N. J.: I would like to ask what the rest of you think about the idea of 1½ cents per gallon as rent. I had to appraise a station at a traffic circle where the rent was one cent a gallon, and the capitalized return on one cent a gallon was so much that I had to increase the capitalization rate to about 16 per cent in order to give fair value to that land. The state was widening a road at that point and they were taking the land. I would like to hear what some of you think about the rate of 1½ cents a gallon.

Frederick M. Babcock, Ann Arbor, Michigan: With regard to Mr. Henderson's closing remarks, it occurred to me that the conclusion he made from the facts set out was erroneous. I think Mr. du Bois covered that. If the highest and best use is an oil filling station, the value of the site is certainly to be predicated on that use. However, the rest of Mr. Henderson's paper indicated that that type of retail business is a very hazardous one. It is speculative in character, and subject to rather rapid change, and that in itself indicates a high capitalization rate. I do not think the problem is one of trying to make some sort of a wedding between the value of a site for a store or something of that sort, and the oil use. If the oil use is the obvious highest and best use and that use is a very speculative and uncertain thing, it calls for the high rate. As to the 1½ cents rate, I do not know. It depends on the market.

Ward Wight, Atlanta, Georgia: The prevailing rate last year was one cent a gallon.

Mr. du Bois: I think it is quite obvious to anyone of you that unless the business reaches a certain minimum amount of gallonage you could go utterly astray on this basis of one cent a gallon or any amount per gallon. The operator has an investment in capital that he must make before he can carry on business, and he has to do enough business in order to take care of that capital investment in order to carry on his operations. He must take care of his labor charges, his repairs, whatever they may be, and pay his light, gas, and water bills, and so on, so that if business does not amount to enough he cannot afford to pay a half a cent a gallon, perhaps.

The Liability of the Appraiser

By J. George Head*

THE answer to the question as to what is the liability of a valuer to his client for the result of his valuation may be compressed into a single sentence.

"None, provided the valuation is an honest one."

But this answer, in common with most other generalizations, requires for its proper application a definition of its terms and an amplification of its statement.

Taken by itself the answer is somewhat vague and may be misleading, without some explanation of what is meant by the words used and some consideration of the conditions under which the question arises.

The writer proposes in this paper to expand his statement to make it intelligible and to avoid misunderstanding which might otherwise arise in connection with it.

Significance of Term "Value"

"Value" is a word of wide significance denoting the worth to mankind of whatever is desirable, including every imaginable thing which satisfies the mind, pleases the senses, or provides for the needs of the body.

"Value" is a purely relative term, representing the measure of desire for a certain object, and the amount of some other commodity which one is willing to barter for possession of it, whether the price be paid in money, in effort, in treasure or even in life itself. Value attaches less to the material object than to its usefulness or to its desirability. Changing conditions effect a marvelous transformation. That which all men desire may easily become an incumbrance of which the possessor may fain be rid; the cheapest thing in the world may become the most precious. What, for instance, is the worth of a bag of gold to a drowning man? How much would a traveler lost in the desert give for a cup of water? And in the question which begins: "What shall it profit a man," value takes on its highest and most solemn meaning.

But since money is the ordinary medium of exchange and, being standardized, is most convenient for comparison, the everyday meaning of the term "value" has come to be that quantity of money which a thing will command, or for which it can be acquired. It is this aspect alone with which this paper deals.

Every One a Valuer

Every one is at heart a valuer; man or woman, all of us practice the art in daily life. Every calling demands and fosters, as an elementary condition of success, a knowledge of the value of the particular commodity dealt with. Women in particular develop the faculty to a marked degree in respect to dress, furnishing materials, and the thousand and one items of domestic life. Even the boy can tell to a penny what ought to be paid for his wireless components or for anything else relating to his games and amusements. So important is this knowledge of values in any undertaking, that they who possess it are able to render to those concerned therewith an assistance for

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Appraisers in England have been held liable for damages arising out of their neglect or misrepresentation in rendering a report; but the appraiser cannot be held responsible if his appraisal has been made honestly and carefully. Because of the body of common law equally accepted in both England and America, this construction of the appraiser's responsibility has a direct application in this country.

which they can command a definite remuneration, the knowledge itself having become a saleable commodity. In this way arose the class of men known as appraisers or valuers.

Since the advice of the valuer often determines the course of action adopted by his client, the importance of its correctness is obvious. While success often passes unremarked, failure nearly always brings a sharp examination of the valuer's advice, and the question of his responsibility at once arises.

Functions of a Valuer

In estimating the liability of a valuer for his valuation it is necessary at the outset to define exactly what we mean by a valuer, what classes of persons become his clients, and of what we are thinking when we speak of the liability of the former to the latter.

In the first definition we are helped by the words of an Act of Parliament (46. George 111.) which says:

> An appraiser is a person whose calling or occupation is to value property of any description or any interest therein, for or in expectation of, any gain, fee, or reward.

The liability which we are contemplating is the extent to which he may be held responsible to the person employing him, for any loss or damage which he (the employer) may suffer from acting upon the valuer's advice.

Valuers Licensed in England

In Great Britain a valuer must take out a government license at an annual cost of £2. 0. 0. under a penalty of £50 for non-compliance with this provision.

The granting of the license is however merely a matter of revenue and does not carry with it the slightest assurance that the licensed person is qualified to value anything.

Towards the government department, therefore, which authorizes him to act, the valuer has no responsibility whatever. Such responsibility as he has is towards his client only.

The client is any person who employs the appraiser to advise him as to the value of the commodity which he has under consideration. These commodities are legion in number and comprise everything which may be the subject of sale or exchange between the members of the race. They may be divided into two main classes: chattels and real estate; and the principles set out hereafter apply equally to both classes, but as the practice of the members of our respective institutes is more particularly concerned with the latter, these remarks apply chiefly to valuations of real estate.

Purposes of Valuations

Valuations may be made for various purposes, among which are the following:

> For sale or purchase in the open market.
>
> For sale or purchase as between a willing vendor and a willing purchaser.
>
> For compensation when the land is taken under compulsory powers.
>
> For a loan by way of mortgage.
>
> For estate duty purposes.
>
> For land development.
>
> For arbitration.

The procedure under every one of these headings involves the consideration of different conditions, and in some cases a knowledge of special Acts of Parliament and local regulations.

Duty of Valuer to Clients

There is therefore a large variety of matters in which a valuer may be engaged in contractual relations with an equal variety of clients, and towards them he owes a clearly defined duty. But even to them he is not responsible

for the soundness of his valuation, but only for the spirit in which it is made —for the *bona fides* with which the duty is undertaken and carried out. It is the honesty of the report which is its indispensable characteristic. A valuer is not responsible for a mistaken opinion or one which is inconsistent with subsequent results. Indeed, he is not responsible for any opinion, as such, which he may give.

Nor is this to be considered remarkable, bearing in mind the nature of value; its subtlety is deep, since it is the measure of the average man's desire for a commodity; its variability changes like a veritable barometer, answering to the inter-play of shifting economic factors, which move in obscurity and only reveal themselves in their effects. It sometimes happens, for instance, that when a business property has been valued for the purpose of sale, the purchaser resells at a profit; and not unnaturally, the original vendor feels disappointed that the higher price was not obtained by him. He suspects that the valuer failed to appreciate some factor of value which disclosed itself to the purchaser and enabled him to realize a profit which should rightly have been included in the price fixed by the valuer. There is much to be said for this view, yet it is not always possible to foresee sudden increase in value, such for example as may be caused by the incursion of a particular trade into a district, resulting in activity of demand and appreciation of prices.

Effects of Falling Values

Conversely, a fall in values may take place for a reason equally unexpected. Indeed, the excess of a valuer's estimate over the amount realized on a re-sale is a most fruitful cause of trouble between a valuer and his client.

When, for instance, a valuer advises the purchase of a property at a certain sum and the same property on a resale realizes an amount which is appreciably less, it is by no means unnatural that the client should feel aggrieved, particularly after having paid for expert advice.

The disappointment of clients has often brought a matter of this kind into the law courts, but it has invariably been held that such apparent falsification of the valuer's report does not render him liable for damages, provided the opinion was honestly given.

The valuer's difficulty is enhanced by the fact that his estimate is nearly always a future one. Past values are recorded in prices actually paid; present values become past before the ink on the report is dry. It is with the future the valuer has to deal. He would be a hardy man who would foretell the coming season's crops; and although the forces which make for changes of value are less obscure than those which determine the weather, a forecast must contain an element of uncertainty. Prophecy is not to be had for a fee, and even an educated opinion cannot reasonably carry with it legal responsibility for future happenings.

Incompetence One Ground for Liability

Yet, although no liability attaches either to the holding of a license or to the expression of an opinion, a very serious liability does arise, under the fundamental principle of English law, that the subject must not wilfully or negligently mislead a fellow subject with regard to any matter which he may undertake on his behalf. A breach of this principle would at once render the valuer liable for the consequences.

It is perhaps superfluous to say that actual fraud would bring the valuer within the grasp of the law. Naturally deliberate deception, wilful mis-statement with intent to defraud, would make a valuer liable to make good damage resulting from his dishonest

advice, and might well lay him open to criminal prosecution; but even conduct which is not in itself fraudulent may yet be betrayal of the confidence reposed in him, and so may bring liability in its train. The principle underlying the relation of a valuer to his client is that he is bound to give him the best advice in his power and to act in his interest alone. Anything which contravenes this principle may be held actionable. For instance, the acceptance of instructions to value—the undertaking, with or without a fee, to make a valuation of any object—implies an assurance that the valuer is reasonably competent to carry out the duty which he undertakes; and the conscious absence of such competence is not far removed from a fraud upon the client.

Gross incompetence, then, is one ground for liability, of which account is taken by the law.

Valuer Responsible for Negligence

Again, in any paid service rendered to another it is assumed that due care and diligence will be used in carrying out the work, and any failure in this respect will vitiate the service which is undertaken.

Negligence, therefore, is also a ground of liability.

Thus care and competence must go together; neither alone will suffice; the duty to the client demands both. No amount of care on the part of a man ignorant of the subject will be deemed a justification of his having undertaken the work of valuation; for in so doing, he has given an implied assurance that he is qualified to carry out his bargain with his employer.

Valuer Must Know By-Laws

A valuer is expected to have or to acquire a knowledge of Acts of Parliament which apply to the property he is considering—such as the London Building Act, 1894, or the various Public Health Acts. He is expected to know or to make himself acquainted with the local by-laws and regulations governing the district in which the property is situated. It is looked upon as a part of his ordinary professional equipment that he should be aware of the scale of current prices and of their permanence or variation over such a period of time as may afford him a reasonable basis for the advice he tenders to his client. In short, he is a specialist, and is expected to possess just that special knowledge which is lacking in the lay client.

But no degree of competence will excuse neglect, as, for instance, an omission to ascertain particulars which may be important factors in the valuation.

It has been held that a valuer, who looked at the outside of a property but who failed to inspect the interior, had not used due care, and he was accordingly mulcted in damages.

A similar view was taken by the judge in a case where a valuer had reported for mortgage purposes without visiting the premises at all. Being well acquainted with the property, he omitted to visit it specially, and so was ignorant of the bad state of repair in which it was subsequently found to be.

Loyalty Must Be Unquestioned

Again, since from the valuer is due entire loyalty to his client's interest, it is of the utmost importance that anything which savors of departure from this rule should be avoided. It is not unknown in cases of valuation for mortgage for the fee of the valuer advising the lender to be paid to him direct, by the borrower. This is most inadvisable, as it sets up a possible presumption that the borrower and not the lender is really the valuer's client, and that his interests are being guarded by the valuer, instead of those of

the lender. The following quotation cites a case in point:

> In an action brought to make a trustee liable for having advanced trust money on insufficient security Mr. Justice Stirling, in delivering judgment, said that it appeared to have been arranged that the valuer should be paid by the mortgagor. It was stated that this was usual and also that the valuer received a higher fee when the mortgage was carried into effect. This might be usual, but was, in his Lordship's opinion, improper. The mortgagee should choose to pay his own valuer, the charge being ultimately borne by the mortgagor.

Influence of "Trustee Act"

Such a looseness of arrangement may result in the lender (if a trustee) being himself held responsible to his trust for the soundness of a mortgage security. This contingency is directly provided against by the Trustee Act, 1925, with which the valuer should be intimately acquainted, since it is his duty, not only to value the property, but also to advise as to whether a loan should be made. The following is an extract from the Trustee Act:

> A trustee lending money on the security of any property on which he can lawfully lend, is not chargeable with breach of trust by reason only of the proportion borne by the amount of the loan to the value of the property at the time when the loan was made, if it appears to the court:
>
> (a) That in making the loan the trustee was acting upon a report as to the value of the property made by a person whom he reasonably believed to be an able practical surveyor or valuer instructed and employed independently of any owner of the property, whether such surveyor or valuer carried on business in the locality or elsewhere.
>
> (b) That the amount of the loan does not exceed two third parts of the value of the property as stated in the report.
>
> (c) That the loan was made under the advice of the surveyor or valuer expressed in the report.

By these clauses the responsibility is deliberately shifted from the shoulders of the trustee, a proceeding which emphasizes the necessity on the valuer's part of doing nothing which may in any way throw a doubt on his single hearted devotion to the client's interest.

But here a note of warning must be sounded.

In urging "devotion to his client's interest" it is not meant that the valuer should strain his valuation in his client's favor. Although his legal responsibility is to his client alone, yet to the community at large he has a general responsibility for doing the fair thing.

His report, therefore, should be nothing but a clear statement of the conclusion reached by him from the facts. Should any distortion occur, it would not only vitiate entirely the usefulness of his valuation and lay him open to censure, but would reflect injuriously on the reputation of the whole profession. The valuer must steer a straight course; divergence on either side is to be carefully avoided.

Judicial Opinion of Surveyor's Fees

In this connection, Mr. Justice Warrington took strong exception to the prevailing practice of surveyors charging the full fee in the event of the report being favorable to the loan, and accepting a smaller remuneration paid as a preliminary fee where the report was unfavorable. The learned judge said, "It is obvious that if and when that was the case, it was to the interest of the surveyor to make such a report as would enable the matter to go through, whereas his duty was to advise the trustees independently and without reference to any question concerning his fees." His Lordship was the more desirous to make this statement because in another case, which was recently before him, there was evidence that the practice of which he was now expressing disapproval, was

common. It is well that surveyors and trustees should know that such a practice was not one to be countenanced, and that a certificate given by a surveyor in such circumstances was one which they might find the court would not feel justified in accepting as sufficient to satisfy the provisions of the Trustee Act.

Another practice, happily rare, is an instance of what ought to be strictly avoided, and that is the acceptance by the valuer of any fee from the borrower for finding the money, or for any services rendered by him in arranging the loan. In fact, he must keep his hands clean from any proceeding which would in any way sway him from the duty of making his client's interest the paramount consideration.

Extent of Liability

But if liability should arise what is to be the extent thereof?

In general terms, the measure of damage may be said to be the loss which the client has sustained as a direct result of the valuer's failure to perform rightly the duty which he undertook. In estimating this loss the principle employed is to assess, so far as it can be assessed in money value, the sum necessary to place the client in a position as favorable as he would have occupied had the valuer used due skill and care in arriving at his advice.

A necessary outcome of this principle is that, where a client has suffered no damage, the valuer will be free from any penalty whatever even though he may have been incompetent or negligent or both. In a case of this nature — analogous in principle although it was concerned with chattels and not with real estate — it was held that the defendant auctioneers, notwithstanding the fact that a sale catalogue of china was negligently prepared by them, were not liable to pay damages, nor even the costs of the action, inasmuch as the china did not fetch any lower price by reason of that negligence.

Exemptions of the Valuer

It is important to note at this stage that a valuer is in no way responsible for negligence in making his report to any person other than his employer. He owes no duty to any third party.

When a valuer is acting as arbitrator, he is no longer liable for failing to exercise sufficient skill and care provided he acts with *bona fides*. Apart from fraud, no action for negligence can be brought against an arbitrator.

Before this section of the subject is dismissed, it is necessary to add that even where acting gratuitously, a valuer is responsible in the same manner as if he had received a fee, it being considered that he is bound to respect the confidence reposed in him, and that the "gratuitous" service is rendered to his client for a consideration, although that consideration may be expressed in terms other than those of monetary reward.

For the benefit of those who desire to consult the authorities upon which the remarks in this paper are founded, a schedule of the principle cases is appended with a short epitome of the points dealt with in the several instances.

A Straight Deal Is Required

Such then are the considerations which govern the responsibility of a valuer to his client, and from a review thereof there emerges the notable conclusion that notwithstanding the entire absence of legislative provision, the law bases its decisions on the fundamental necessity of honorable conduct in every transaction between man and man. A straight deal is the touchstone of responsibility.

Thus the law which is the common heritage of our two great countries

safeguards honest opinion against responsibility and unforeseen results, requiring only that it shall be delivered in good faith, while it penalizes the slightest departure therefrom.

That which the law strives to achieve by preventive and negative means, is the main object of the Auctioneers' and Estate Agents' Institute, and doubtless of the kindred body of the great land of the West. Together these two societies labor to establish by positive and aggressive endeavor a high standard of efficiency and integrity in professional conduct, so that when a man is accredited as a member of either of them, it shall be known that he is one whose advice may be invited with the assurance that it will be reliable and that it will be framed in the sole interest of him who seeks it.

Cases Bearing Upon the Liability of a Valuer to His Client*

Court of Common Pleas

JENKINS v. BETHAM and ANOTHER

January 31, 1855

(Before Chief Justice Jervis, and Lords Justices Maude, Williams and Crowder)

Liability Because of Negligence

The declaration stated that the plaintiff, rector of F., agreed with the executrix of the late incumbent that dilapidations should be valued, as between them, by valuers to be appointed on each side; and, in case the valuers disagreed, by an umpire to be appointed by the valuers; that such valuation should be final and conclusive; that the plaintiff, at the request of the defendants, employed them as valuers, for reward, to value the dilapidations on his behalf, and to use their best endeavours to procure the same to be settled at a reasonable amount as between the plaintiff and the executrix; and the defendants accepted the employment, and entered upon it, with a valuer appointed by the executrix on her behalf. Breach, that through the defendants' negligence the amount of dilapidations was settled by them and the said valuer at a less sum than they ought to have been settled at, whereby the plaintiff was obliged to accept from the executrix a smaller sum than he ought to have received.

The evidence was: that the defendants were employed as alleged, and had agreed with the valuer of the executrix in valuing the dilapidations at too small a sum, having — through ignorance — valued as between incoming and outgoing tenant, instead of as between incoming and outgoing incumbent.

HELD: first, that the defendants were not sued as quasi arbitrators; but that the cause of action was their undertaking that they were competent, and the breach of that undertaking; and, secondly, that although the defendants could not be expected to supply minute and accurate knowledge of the law, they ought to have known the broad distinction between the case of an incoming and outgoing tenant and the case of an incoming and outgoing incumbent, and that their ignorance in that respect was a breach of their engagement.

V. C. Kindersley's Court

COTTER v. THE METROPOLITAN RAILWAY CO.

Thursday, July 7, 1864

(Before Vice-Chancellor Kindersley)

Valuation and Fixtures

Lands Clauses Act, Section 85:

Where a railroad company, about to purchase a house for the purposes of its undertaking, causes a valuation of the premises to be made, in order that the sum determined upon may be paid into court — under Section 85 of the Lands Clauses Act — such valuation must not be made by a mere inspection of the exterior of the premises. It must also include "fixtures".

Court of Common Pleas

November 25, 1873

(Before Chief Justice Coleridge, and Lords Justices Keating, Brett and Denman)

*The writer is indebted for the following list of cases to the excellent handbook entitled MORTGAGE VALUATIONS of which the legal section was written by Mr. Graham Mould

Action for Negligence

The plaintiff purchased the good will, stock and effects of a business at a valuation, the amount of which was to be fixed by valuers—one to be appointed on each side for that purpose — and, in case of difference, by an umpire to be chosen by the valuers. The plaintiff employed the defendant as his valuer, and the defendant and the valuer appointed by the vendor fixed between them the amount of valuation. In an action for negligence in making such valuation, by which the value of the good will was fixed too high, the plaintiff applied to administer interrogatories to the defendant to ascertain the basis on which he had agreed with the valuer of the vendor to calculate the valuation.

HELD: that the defendant had not acted in the matter as an arbitrator, but as a valuer only, and was therefore liable to his employer for negligence; and the plaintiff, accordingly, was allowed to administer the interrogatories.

Queen's Bench Division

CRABB and OTHERS v. BRINSLEY.
CRABB v. SAME

October 29, 1888

(Before Mr. Justice Denman and a special jury)

Another Case of Negligence

This was an action brought by mortgagees for damages caused by the negligence of the defendant, Mr. George Brinsley, of New Bridge Street, as a surveyor, in giving advice as to advancing money on certain property. The plaintiffs, by their statement of claim, set out that in November, 1882, they were applied to by one Tattersall for an advance of money by way of mortgage upon the security of certain leasehold premises in Leather Lane, Holburn, comprising shops with dwellings overhead, used as artisans' dwellings. The plaintiffs, thereupon retained the defendant to act as their surveyor and to report upon the value of the premises as a security for an advance of £2,000. The defendant accepted the retainer, and made a report that the premises were an ample security for an advance of £2,000. The plaintiffs, upon the faith of such a report, advanced to Tattersall £1,500 upon a mortgage of the premises. The defendant was negligent in making his report, and the premises, far from being worth £2,000, were ultimately sold for £410. The plaintiffs claimed £1,735 for principal, interest and expenses. The defendant denied the retainer by the plaintiffs, and alleged he was acting solely for Tattersall. He also denied negligence and other allegations in the statement of claim. The second action, by one of the plaintiffs against the same defendant, was in respect of a further advance of £1,500 on the same premises, and the two actions were tried together.

The jury found that the defendant was employed by the plaintiffs, but that he had been negligent only in advising the advance of the second loan of £1,500.

The judgment was for the defendant in the first action, and for the plaintiff in the second action — £1,500 damages.

Supreme Court of Judicature Court of Appeal

LE LIEVRE and OTHERS v. GOULD

February 3, 1893

(Before the Master of the Rolls, Lord Esher, Lords Justices Bowen and A. L. Smith)

Negligence and Liability of Surveyors

Mortgagees of the interest of a builder under a building agreement advanced money to him from time on the faith of certificates given by a surveyor that certain specified stages in the progress of the buildings had been reached. The surveyor was not appointed by the mortgagees, and there was no contractual relation between him and them. In consequence of the negligence of the surveyor, the certificates contained untrue statements as to the progress of the buildings; but there was no fraud on his part.

HELD: that the surveyor owed no duty to the mortgagees to exercise care in giving his certificates; and they could not maintain an action against him by reason of negligence.

Chancery Division

LOVE v. MACK

January 26-30, 1905

(Before Mr. Justice Kekewich)

Alleged Negligence by Auctioneers and Valuers

The plaintiff, of Hawkhills, Easingwold, Yorks, sued Mr. Robt. Mack, of Messrs. R. &

W. Mack, auctioneers and valuers of Pilgrim Street, Newcastle, for damages for alleged negligence and breach of contract.

The defendant (valuer) was sued by the plaintiff (mortgagee) for not exercising due skill and care in valuing licensed premises, which eventually failed to realise on sale sufficient to protect plaintiff from loss.

The judgment was for the defendant on the ground that he had valued for an Insurance Company and not for the plaintiff; consequently, he had no liability to plaintiff for the employment of due care and skill.

On appeal, the judgment in this lower court was confirmed.

Glamorgan Assizes

HARRISON v. STEPHENSON and ALEXANDER

August 4 and 5, 1905

(Before Mr. Justice Channell)

Alleged Breach of Duty by Auctioneers

The defendant valuers were sued for want of care and skill in valuing property for a mortgage loan on the ground that, when the property was offered for sale, no offer equal to the amount of the mortgage loan could be obtained. The plaintiffs alleged that the defendants had made an error in their valuation.

In giving judgment for the defendant the Judge remarked, inter alia: "A surveyor who makes a valuation of this sort does not guarantee that the property will fetch so much. He says, 'That is my opinion. I am a skilled man and you can rely upon it, and that is my opinion for what it is worth.' Unless you can make out that he has not taken some pains that he ought to have taken, you cannot bring an action against him for a mere error of judgment. . . .

"The general result, it seems to me, is that it has not been made out that there is the sort of negligence for which a valuer is responsible."

Chancery Division

DIVE v. ROEBUCK

December 9 and 10, 1909
(Before Mr. Justice Warrington)

Breach of Trust under Trustee's Act

A trustee, having power to invest in leasehold security "in his own name or under his legal control," invested on contributory mortgage of an underlease, upon the advice of his solicitor. The security was introduced to the solicitor by a surveyor, and the surveyor's fee depended on the mortgage going through. The trustee employed the surveyor to value the property for him. The surveyor's report showed that the security was a speculative one and might in certain eventualities subject the mortgagees to liability in respect of covenants not only of the underlease, but of the head lease. In the result the mortgage money was nearly wholly lost.

HELD: that the trustee had not acted "reasonably" and ought not to be excused from liability for the loss, under Section 3 of the Judicial Trustee's Act, 1896.

Although this action was against a trustee and not against a valuer, the learned judge's remarks with reference to the valuation are worthy of attention. He said:

The security had been introduced by Charles, a valuer whom the trustee employed to value the property on his behalf. Surely the fact that the surveyor introduced the security would lead one to suppose that he had some interest, at any rate, in getting the mortgage through; and, in fact, he had, because the payment of his fee for his survey depended on whether the mortgage went through or not. That ought to have aroused his (the trustee's) suspicion. With a whole range of surveyors to choose from, he chose as a person to survey on his behalf the man who had introduced the matter, which seems to me to have been most imprudent. Then the report itself, I think, a report which would have made an ordinary prudent man of business, who was acting on his own behalf, hesitate before he went into such a transaction. The surveyor who made the report said that he had not seen the lease and therefore did not know what the provisions were. He did not know whether there were any unusual covenants. He also said he thought it was possible that the rents then obtained for one set of flats would not be maintained in the future, but the deficiency might be made up by the rents of the other two. There, again, would not an ordinary man of business who does not want to speculate, but who wants to get, as a trustee ought to get, a perfectly safe security for his money, if he were acting reasonably, hesitate to take a security the value of which, to some extent at all events, consists in a possible increase of rents in the future? He knew

that this was an underlease. It does not come to very much, but he was told that there was a third person behind, who, if the rents were not paid, or if the covenants in the head lease were not performed, might re-enter and put an end to the underlease which formed the whole of the mortgage security. Then, again, he was told by the report that the ground rent is a substantial sum of £350—much more than the interest on the money he is going to advance—and that he may, therefore, if the mortgagor fails to pay, have to find, in order to save the property, the £350 per annum, if the mortgagor ceases to pay the ground rent and if the rents from these flats did not come in. I need not say any more.

Queen's Bench Division

BECK and ANOTHER v. SMIRKE

January 18 and 19, 1894

(Before Mr. Justice Wills)

Case of a Careless Valuation

This action was brought to recover the loss suffered by the trustees of an estate who advanced money on mortgage on a surveyor's valuation, but did not realize the amount on a forced sale of the property.

Mr. Justice Wills said a surveyor who was employed had to exercise competent care in making his report. This had not been done. The valuation was made in a most careless manner. The judgment was for the plaintiffs — £200.

King's Bench Division

PALMER v. GODWIN, BASLEY & CO.

March 3, 1908

(Before Mr. Justice Darling and a special jury)

Valuer's Liability — Damages £1,750

The defendant valuer was sued on the ground that he had failed to exercise due skill and care in making his valuation in which he recommended a mortgage loan of £5,500. Within three years of this valuation the property was found to be badly planned, badly built, and in a deplorable state of repair. The evidence was to the effect that it was doubtful whether an offer to purchase at any price could be obtained.

The judgment was for the plaintiff — damages £1,750.

Southampton Court

FITZGERALD'S TRUSTEES v. FURBER

July 6 and 7, 1909

(Before Mr. Justice Channell and a Jury)

Negligence — Damages Assessed

This action was brought by trustees against a valuer and surveyor of Southampton.

The claim stated that plaintiffs had suffered damage through defendant's alleged negligence in failing to exercise due care, diligence and skill in ascertaining the true value of property on which the trustees advanced £6,000 on mortgage, in consequence whereof he valued it at a much greater value than it was really worth, and advising that a much larger sum could be advanced than could be advanced with safety, and the plaintiffs, acting on his advice, and relying on it, lent larger sums than the property was security for, and thereby incurred loss. The statement added that the plaintiffs lent £6,000, and that the property, deducting the costs of realisation, would not realise £3,000 or thereabouts. The defence was a denial that the defendant was employed by the trustees to make a valuation of the property, and the other allegations were also denied.

Evidence was adduced on both sides as to the value of the property at the times when the several advances were made and at the time of the action. In the end the Jury returned a verdict for the plaintiffs—£1,000 damages.

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Severance Damage to an Apartment Site

By Ayers J. du Bois, M. A. I.

As a means of stimulating discussion of principles and of methods and procedure in the appraising of real property, THE JOURNAL is publishing a series of appraisal reports dealing with various classes of property. Each one is prepared by a Member to demonstrate the methods and procedure he considers proper for the type of property or problem involved. They are not offered as "standard," nor is it to be understood that they are "approved" by the Institute.

The officers of the Institute earnestly desire that all members study the sample appraisals and questions published from time to time and send in short, concise, constructive discussion of the principles involved and other suggestions as to methods or procedure.

Through the active cooperation of all members in this manner we shall be able to make this Journal a real forum of discussions and ideas and thereby it will be of tremendous value to the entire membership.

Address Mark Levy, Chairman of the Publications Committee, American Institute of Real Estate Appraisers, 59 E. Van Buren Street, Chicago, Illinois.

APPRAISAL OF PARCEL No. 225

Street Opening and Widening District No. 508

Southeast Corner of Arterial Street and Poppy Lane

AYERS J. DU BOIS
Realtor - Appraiser
7079 Hollywood Blvd.
Los Angeles

June 19, 1931.

Mr. A. R. Roscoe,
4456 Vista Del Mar,
Hollywood, Calif.

Dear Mr. Roscoe:

In accordance with your request I have made a careful study and investigation in order to determine the fair market value (land only) of your property in this City known as 3350 to 3370 Arterial Street, as of the date of January 7, 1931; and also to determine the damages which will be caused to that property by the taking of a portion thereof by an action in eminent domain brought by the City of Los Angeles for the purpose of widening Arterial Street. The report attached hereto sets forth certain information gathered by me, as well as my conclusions and the bases for them.

In my opinion the fair market value of the property (land only) described in the report, subject to the conditions stated therein, as of January 7, 1931 was

SIXTY THOUSAND DOLLARS
($60,000.00)

In my opinion the damages your property will suffer and the amount which you should be awarded in compensation therefor will be

ELEVEN THOUSAND EIGHT HUNDRED EIGHT DOLLARS
($11,808.00)

With best wishes and awaiting further opportunity to be of service to you, I am

Sincerely yours,

Ayers J. du Bois.

Summary of Report

Fair Market Value of Entire Holding (Land Only)..........$60,000

Average Value Per Front Foot $341

Average Value Per Square Foot $2.39

—

Area of Entire Holding....25,114 sq. ft.

Area of Portion Sought.... 2,700 sq. ft.

Size of Entire Holding, 176 Ft. (Arterial St.) x 145 Ft. (Poppy Lane).

—

Fair Market Value of Property Sought (2700 sq. ft. at $2.39 per sq. ft.)..................$ 6,453

Severance Damage to Remainder, 10% 5,355

TOTAL DAMAGES CAUSED BY THE PROPOSED CONDEMNATION ACTION $11,808

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Estimate of Earning Capacity of the Site ....

Sales Prices Established.......................

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Appraisal Qualifications of Ayers J. du Bois

12 years in real estate and appraisal business in Los Angeles.

19 years a resident of Los Angeles.

Has done appraisal work for:

- City of Los Angeles
- County of Los Angeles
- Board of Education, City of Los Angeles
- Corporation Commissioner, State of California
- Security-First National Bank of Los Angeles
- Los Angeles Gas & Electric Corporation
- Hollywood Holding & Development Co.
- Community Securities Corporation of Hollywood
- Assessor, Los Angeles County
- Numerous individuals, companies, etc.

Has held office in realty and appraisal organizations as follows:

- Member Executive Committee, 1931-1934, Appraisal Division of National Association of Real Estate Boards
- Vice-Chairman, Appraisal Division, Calif. Real Estate Assn., 1929
- Chairman, Hollywood Branch of Los Angeles Realty Board, 1928
- Director, Los Angeles Realty Board, 1928-29-30
- Chairman, Educational Council, Calif. Real Estate Assn.
- Director, California Real Estate Association

Some properties appraised include:

- Taft Building, Hollywood, 12 story office building
- First National Bank Bldg., San Diego, 13 story office building
- Physicians Building, Sacramento, 8 story office building
- Leasehold, S. W. corner Hollywood Blvd. & Hudson Ave.
- Leasehold, N. W. corner Hollywood Blvd. & Orange Drive
- Subdivision and miscellaneous properties for A. N. Kemp, Receiver for Guaranty Bldg. & Loan Assn. of Hollywood.
- Industrial properties, 9th & Soto district and others.

Holds the certificate of the University of Southern California and California Real Estate Association for having successfully completed the University Course in Real Estate Appraisal, which Course he has taught (also the Course in "Real Estate" of same institu-

tions) for several years to groups of realty brokers, salesmen and others, as a special instructor for University of Southern California.

Winner in 1929, with Chas. B. Shattuck of Los Angeles, of the Annual Appraisal Contest of the California Real Estate Assn., the subject of the Contest having been the two leaseholds on the 13 story First National Bank Building, San Diego, Calif.

Has delivered various special lectures for University of Southern California over radio and in classes on subjects pertaining to real estate and real estate appraisal, and is the author of articles published in a number of real estate publications.

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Appraisal of Parcel No. 225

Street Opening and Widening District No. 508, Southeast Corner of Arterial Street and Poppy Lane

Date

This appraisal is made as of January 7, 1931.

Purpose

The purpose is to set forth the fair market value of the property described herein and to determine the damages which should be awarded because of the taking of a portion of the property by the City of Los Angeles in order to widen Arterial Street.

Legal Description

Lots One (1), Two (2), and Three (3), Tract No. 969, as per map recorded in Book 63, Page 34 of Maps, records of Los Angeles County, California; also known as 3350 to 3370 Arterial Street, Los Angeles.

Size and Shape

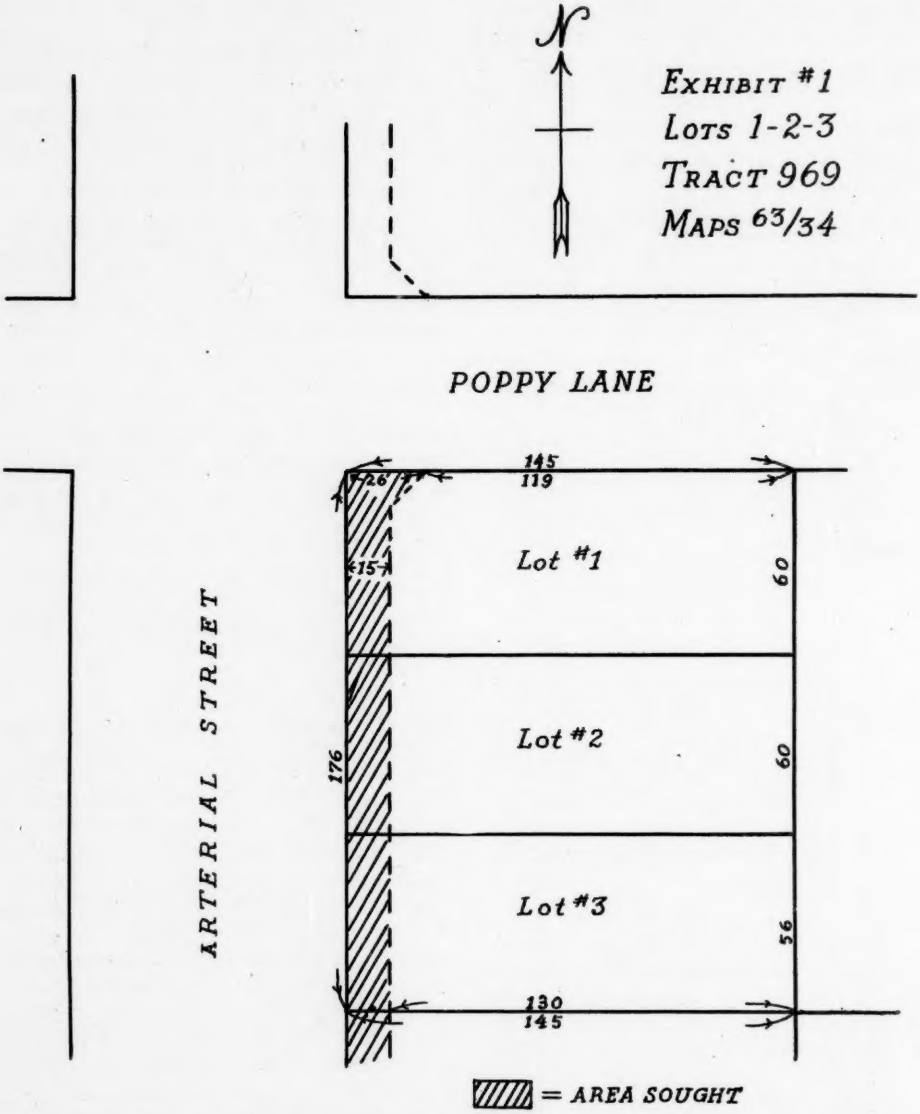
176 ft. (on Arterial St.) x 145 ft. (on Poppy Lane). The shape is rectangular. The land is level and on grade with the abutting sidewalks.

Location, Accessibility, Etc.

The property is located on the east side of Arterial Street about three-fourths of a mile south of the Hollywood Blvd. central shopping and theatre district. It is situated in a residential area of great desirability, surrounded with many homes of beautiful appearance and occupied by people of more than average wealth, so that as a rental district for residential-income uses, this area draws tenants able to pay medium and high rentals. On Arterial Street excellent transportation service is provided by comfortable buses traveling at eight minute intervals to the business areas of Hollywood and Los Angeles.

Improvements

The improvements now on the property consist of flat buildings built in 1917 and 1921. These buildings are not affected by the street widening program and need not be considered in this report. Being somewhat obsolete both in architectural style and interior finish and arrangement, and containing but four units in each building or twelve units in all, so that obsolescence by supersession also affects them, the income-earning possibilities of the existing structures do not fairly represent the maximum expectancy potentially attainable. However, it is well to know that the units rent for $40 to $50 per month unfurnished, and the replacement cost new of the corner building would be about $13,500 and $9,000 for each of the other two. The fair rental value of the units is estimated as being $6,000 per year, and the net earnings after allowing for taxes, insurance, water, gardener,



reserve for repairs, and vacancy allowance of 10%, would be about $3,100 per year.

Highest and Best Use

Since the property is in the "R-4" Zone (unlimited apartment zone), it cannot be devoted to business uses although this possibility exists as a potentiality of the near future and gives some added value to this land which is at a corner where neighborhood business endeavors would probably thrive even at this time. Note in this connection, that there are only two intersecting streets on Arterial Street south of Washington Ave., which latter avenue is almost three-fourths of

a mile away and the present limit of the business zone on the north, and north of Security Blvd. which lies one block to the south and forms the terminus of Arterial Street, so that there are only six corner lots on Arterial Street in a distance of approximately a mile. The corner under appraisal is the best of these six corners for a neighborhood business development, mainly because it is most easily accessible to a greater number of people than the other corners (due to topography of the district which is of hillside characteristics until Poppy Lane is reached) and also because it is far enough away from existing business enterprises to offer decidedly superior convenience to prospective traders. Because of the zoning, however, and in consideration of the excellent transportation facilities, the favorable environing district, the size of the plot (176′ x 145′), etc., I consider that the highest and best use of this land consists in utilization as a site for a large

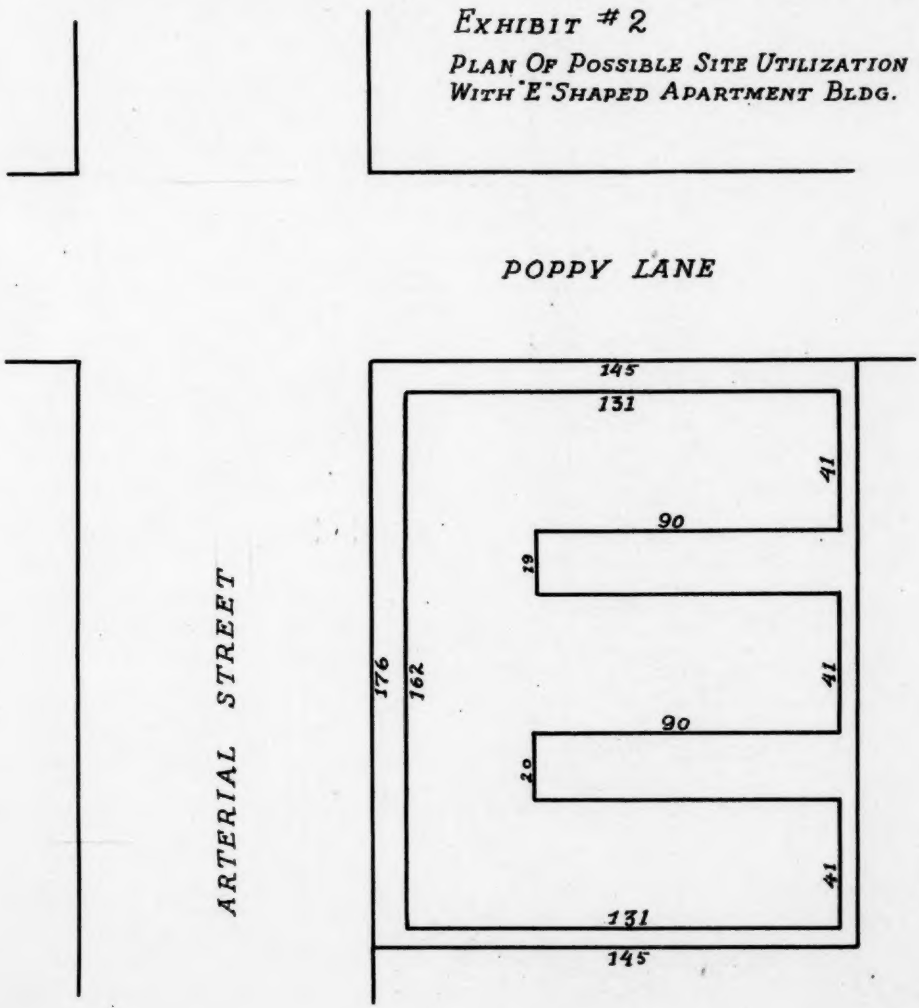


EXHIBIT #2

PLAN OF POSSIBLE SITE UTILIZATION WITH "E" SHAPED APARTMENT BLDG.

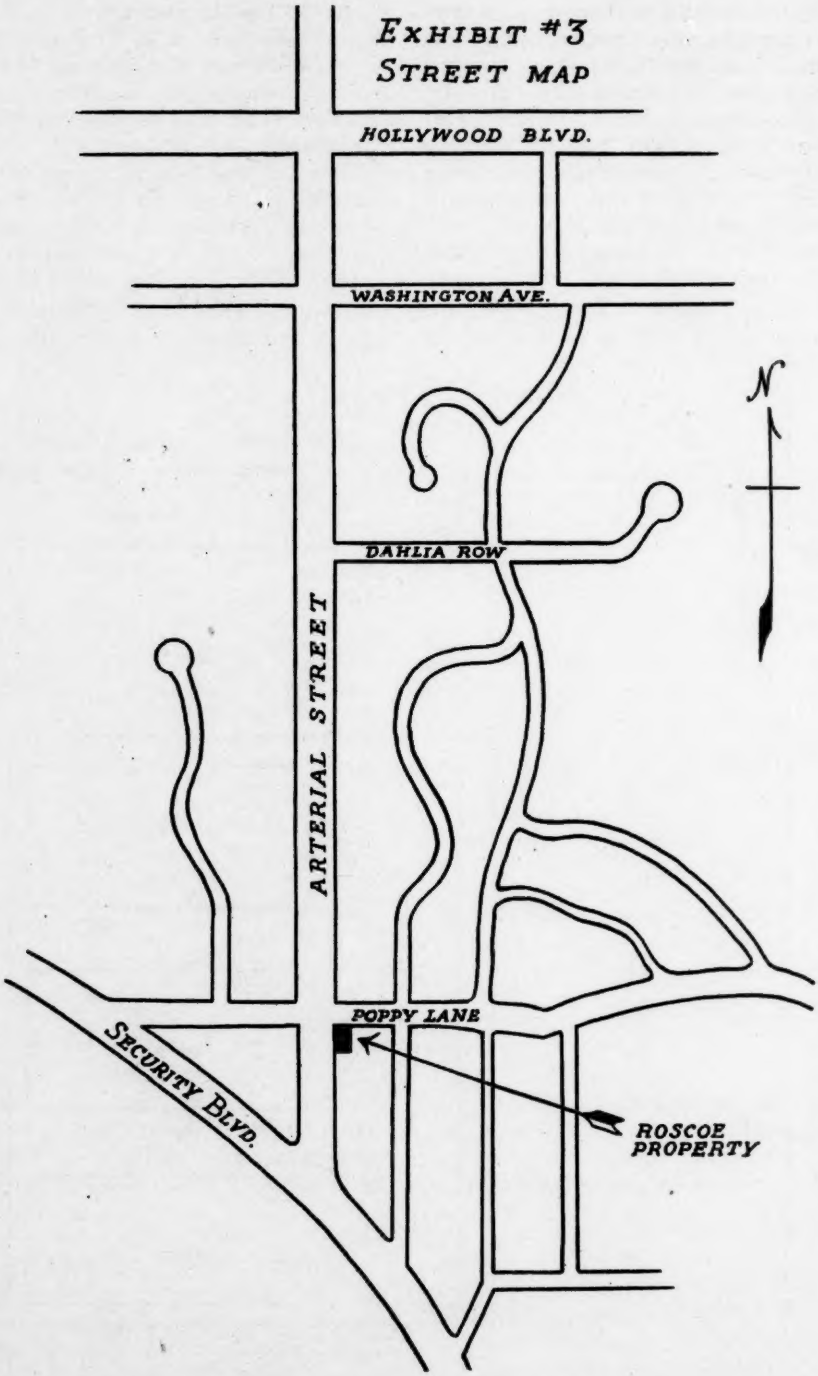


EXHIBIT #3
STREET MAP
HOLLYWOOD BLVD.
WASHINGTON AVE.
DAHLIA ROW
ARTERIAL STREET
POPPY LANE
SECURITY BLVD.
ROSCOE
PROPERTY
N

apartment structure. The proportions of the plot would permit the erection of an "E"-shaped building, having three wings extending towards the east, separated by 20 ft. light courts, and set back 10 feet from both street frontages. Such a structure, four stories above ground (the maximum for class "C" construction, higher buildings having to be class "B" or "A", according to building ordinances, which would be more costly than this site would warrant) would contain 104 single and 8 double apartments, or, by varying the floor plan, more doubles and less singles. Because of the size of such a building, marked economies in management costs and operating costs could be effected as compared with those of smaller buildings.

Potential Earnings of the Site

Improved with such a building as has been mentioned, the following conditions might be reasonably expected to result.

COST OF PROPOSED BUILDING

Basement area	4,921 sq. ft.
4 floors of 17,712 sq. ft. ea.	70,848 sq. ft.
TOTAL AREA	75,769 sq. ft.
Estimated cost of building	$250,000
Estimated cost of furnishings	50,000
ESTIMATED INVESTMENT EXCLUSIVE OF LAND	$300,000

ESTIMATED RENTAL VALUE

(100% occupancy): Per Year	$ 82,080
Allowance for vacancy and rent losses (15%)	12,312
GROSS EXPECTANCY AFTER VACANCY ALLOWANCE	$ 69,768

ESTIMATED DEDUCTIONS FROM GROSS EXPECTANCY

Taxes	$ 5,950	
Insurance	1,920	
Repair reserve (Building and Furnishings)	4,750	
Water, light, gas, power	5,304	
Management: Manager $2,400; Engineer $1,800; 4 Maids $3,600; Elevator Ops. $1,800; Tel. Operator $900; Night Clerk, $1,200; Housekeeper $1,200; TOTAL	12,900	
(NOTE: The "Management" cost of $12,900 is equal to 17.03c per sq. ft. of bldg. area.)		
Capital Charges: Annuity required to return 8% on cost of building ($250,000) and return the cost in 35 years (Hoskold formula 8% and 3% rates)	24,135	
Annuity required to return 12% on cost of furnishings ($50,000) and return the cost in 10 years (Hoskold formula 12% and 3% rates)	10,360	
TOTAL ESTIMATED DEDUCTIONS		$ 65,319
EARNINGS IMPUTABLE TO LAND		$ 4,449

CAPITALIZED VALUE OF LAND EARNINGS, 6% RATE	74,150
CAPITALIZED VALUE OF LAND EARNINGS, 7% RATE	63,550

Capitalized values resulting from analyses of the foregoing nature are not to be regarded as absolute indicators of value, in a quantitative sense, as slight variations in the estimates will materially affect the result; carefully made, however, such analyses do form valuable aids to one's judgment in determining fair value of property.

Valuation of the Land

The foregoing analysis indicates possible land earnings of $4,449 per year, assuming a constant level of gross earnings and deductions as set forth, which conditions do not and would not exist in such types of property. The indicated earnings capitalized at 6% would reflect a value of $74,150 and at 7% $63,550. Considering the probabilities that the site may in the near future be so zoned as to permit commercial activities on a portion of it at the corner, the weight which an intending buyer would assign to such probabilities, the profitableness of the site for such activities, my familiarity with the district for the past ten years or longer (I having listed and sold property in this neighborhood), and the foregoing analysis, it is my opinion that the fair cash market value of the site described as of date of appraisal and at the present time (June, 1931) is $60,000.

This property was sold in February, 1926 to a Mr. Harry Mogul for $80,000. The purchaser, however, meeting with reverses was forced to default in payment of interest on the purchase-money trust deed given back by him to the seller with the result that the latter has recently repossessed the title to the property. There have been no recent sales of property on Arterial Street nearby, except compulsory transactions such as the one just described. For example, a parcel 60 feet wide and 434 feet deep (extending up-hill) a few hundred feet north of the land appraised herein, was sold under foreclosure since January, 1931 for only $9,000, being bid in by the holder of the encumbrance which was in default. The northeast corner of Arterial Street and Poppy Lane, 75 x 150, sold in 1925 for $400 per front-foot and is held today at slightly more than that figure.

The value of $60,000 assigned by me to the site under appraisal is equivalent to $341 per front-foot, $2.39 per sq. ft., and might be allocated $400 per front-foot for the corner 75 ft. and $300 per front-foot for the inside 101 feet. The area of the entire holding is 25,114 sq. ft.

Estimate of Damages

PROPERTY SOUGHT

A strip of land 15 feet deep and extending across the Arterial Street frontage of the property appraised is sought in the pending action in eminent domain. A small area is also taken at the very corner in order to "round off" the corner, cutting along the diagonal of an 11 foot rectangle, amounting to 60 square feet. In accordance with the practice prevailing in this city in estimating damages for property condemned, viz., multiplying the area (in sq. ft.) of the property taken by the average value per square foot of the entire holding, which practice will be applied to the other parcels involved in the pending action, the value of the part sought is estimated as follows:

AREA SOUGHT:

176′ x 15′	2640 sq. ft.
Taken at corner	60 sq. ft.
TOTAL AREA SOUGHT	2700 sq. ft.

VALUE OF AREA SOUGHT:

2700 x $2.39 (average value per sq. ft.)	$6,453.00

SEVERANCE DAMAGE

Since the highest and best use of this property is for a large apartment house, the taking of the portion sought will result in a depreciation in value of the remainder below that which it possesses as a part of the present holding. This severance damage is caused by several factors but the main one is stated below.

It is a well-known fact that large apartment properties can be operated at lesser unit costs than small ones, and it follows, therefore, as is also a widely admitted fact, that large sites are of greater value per unit in which value is expressed (front-foot, square foot, etc.) than several separate but adjoining parcels of equal total area but owned by different persons. This is mainly due to management-cost economies effected in the case of the larger buildings, and can be clearly pointed out in the present case.

Referring to page 158, it will be noted that the projected structure is of 75,769 sq. ft. total area and would require an estimated yearly payroll of $12,900 to operate it, or an outlay of 17.03c per sq. ft. of area. Now consider that 15 feet are taken off of the depth of the site; this will, of necessity, lessen the area that can be built upon, necessitating the shortening of each of the three wings of the "E"-shaped structure by 15 feet, which would result in a lessening in area of 7,380 sq. ft. total for the entire building. (NOTE: do not be confused by the difference in land area taken, i. e. 2700 sq. ft., and building area lost, i. e. 7,380 sq. ft. Since an apartment building cannot cover the entire area of the land but must have light courts, the shortening of depth of the land results in a loss of but 1,845 sq. ft. area per floor in the building, or 7,380 sq. ft. in all.) Therefore, after the taking, a building of the type and height planned and set back the same distance from the street boundaries, would have an area of but 68,389 sq. ft. It is apparent that although the area of the building would be lessened by 7,380 sq. ft. or 9.74%, the salaries of manager, engineer, elevator and telephone operators could not be cut down, but the services of one maid might be dispensed with. It is a reasonable assumption that other items of expense and charge against the gross income could be proportionately reduced, so that if the services of one less maid would be required, the two situations would compare as follows:

	Pr. Sq. Ft.
BEFORE: Bldg. area, 75,769 sq. ft.— Management cost, $12,900	17.03c
AFTER: Bldg. area, 68,389 sq. ft.— Management cost, $12,000	17.54c
INCREASED COST PER SQ. FT. FOR MANAGEMENT (17.54c less 17.03c)	.51c
INCREASED COST FOR 68,389 Sq. Ft. (68,389 x .51c) $348.78 per yr.	
CAPITALIZED VALUE OF INCREASED COST OF MANAGEMENT AT 7% CAPITALIZATION RATE ($348.78 ÷ .07)	$4,983.00

Thus it is seen that on the basis of the assumptions made, which I believe to be reasonable, the taking of 15 feet of the depth of this site will result in a severance damage to the remainder. If it be argued that this loss will not accrue because the projected building does not exist on the site, let the erroneous character of such an argument be seen: it is not here intended to be implied that such a damage would exist only IF such a building were in existence; but it is intended by reason and logic to account for the viewpoints of prospective purchasers which in this instance would result in penalizing the site after the taking of a portion of it, thereby leaving it with a comparatively shallow depth for apartment purposes. It makes no difference whether the site is improved with an apartment building or not; the severance damage will accrue nev-

ertheless because of the lessening of the depth of the property—not because of the cutting-off of any building. The "projected-building" idea, or illustration, is resorted to merely to lay a foundation for my opinion that some severance damage will be caused, as well as to afford somewhat of a guide in estimating the amount of such damage.

In my opinion there will be a severance damage to this site of 10% or $5,355, calculated as follows:

VALUE OF SITE BEFORE THE TAKING OF AREA SOUGHT	$60,000	
VALUE OF AREA TAKEN (See Page 159)	6,453	
VALUE OF REMAINDER BEFORE SEVERANCE DAMAGE	$53,547	
SEVERANCE DAMAGE TO REMAINDER (10% x $53,547)		$5,355

Summary of Damages

In my opinion the damages which should be awarded to the owner for loss in value of his property due to the condemnation of a portion thereof, are as follows:

FOR PROPERTY SOUGHT TO BE TAKEN	$ 6,453
FOR SEVERANCE DAMAGE TO REMAINDER	5,355
TOTAL DAMAGES	$11,808

Certification and Contingent Conditions

1. It is assumed that the title is good; no search thereof has been made and the opinions rendered herein are stated without regard to questions of title.

2. No survey has been made of the site. Dimensions shown on the official maps of Los Angeles County have been used and are assumed to be correct.

3. This is a fractional appraisal (that is, of land only and not of the land together with the improvements now existing thereon) and it is invalidated if used as a summation appraisal (that is, if the value reported herein for land is combined with an assigned value of existing buildings and the resulting sum is represented as the fair market value of the entire property including buildings.)

4. By fair market value is meant the highest price in terms of money which the property (i. e., land if vacant) would bring if exposed for sale in the open market, a reasonable time being allowed to find a buyer who would buy with full knowledge of all the uses to which the site is adapted and of which it is capable.

5. I certify that I have no present or contemplated future interest in the property appraised and that my employment is not contingent upon the amount of the value or damages reported.

6. I certify that to the best of my knowledge and belief the statements made herein are correct; and that this appraisal has been made in conformity with the STANDARDS OF PRACTICE FOR REALTOR-APPRAISERS adopted by the NATIONAL ASSOCIATION OF REAL ESTATE BOARDS.

Ayers J. du Bois.

Signed June 19, 1931.

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Comments and Discussions

du Bois — Severance Damage to An Apartment Site

A

THE appraisal made by Mr. Ayers du Bois handling the condemnation problem for street widening in Hollywood, Calif. gives much evidence of preparation and thought. He conclusively determines damages for the owner of a certain piece of property on Arterial Street from which a small strip of land on the frontage is being taken by the City. The arrangement of procedure is systematic and includes, in the proper place, a sketch of the land showing the area sought by the City measuring one hundred seventy six (176) feet frontage by a depth of fifteen (15) feet; an illustration of the proposed utilization of the site; and, a street map of the district. The disposition of facts are made clear and easily understood. He convincingly sets forth the information for determining the fair *Market Value* of the land as vacant. After allocating the portion of the value to the part needed for the widening of Arterial Street, he estimates the damages to the remainder caused by the taking of a portion thereof by action of *Eminent Domain.*

It is informative that the present improvements now on the property are shown to be obsolete due to supercession. As the district has changed from a lower to a higher utilization, the value of the land has increased at the expense of the improvements.

The foundation ground work in this case rests upon the definition of *Market Value* most often quoted and acceptable, I understand, in the Courts of California. The appraisal has been built up by using the income method (making the land residual). There has been placed a hypothetical improvement on the land, which would represent the highest and best use of the site (highest and best use meaning an improvement that over a period of years produces the maximum income on both the value of the land and building).

After creating this structure costing $300,000.00. he then determines the earning expectancy of the property and from this amount deducts all expenses for operation, interest on the building, and amortization, arriving at the earnings that would be applicable to the land. This amount is then capitalized in perpetuity which determines the residual land value. The value is then checked with sales and asking prices of similar lands.

There has been omitted a notation to the effect that the remaining economic life of the present improvements have ceased. The appraisal states, that the net income from the property with the present improvements is $3,100.00 which apparently pays approximately 5% on the value of the land as vacant. This fact alone shows that no value could be given the improvements if the land is to be valued as developed to its highest and best use.

Also the appraisal does not show whether the property could be developed at the present time to its highest and best use. If it could not, then it is inevitable that the residual land value found must be deferred until such time as the land is available for development to its highest and best use.

After arriving at the total value of the land as vacant, using the income method, the appraiser then reduces the value to a square foot unit and applies this factor to the number of square feet taken. This part of the process of allocating the value is used generally, but it is logical to assume that this procedure would not apply in all cases.

It is brought out in the appraisal that the effect of the proposed acquisition of the property to be taken by the City will damage the remaining property by reducing the income that could be produced when developed to its highest and best use, in that it would reduce the size of the new improvement.

The *Severance Damage* is therefore ascertained by reflecting the earning capacity before and after the loss of the land. Mr. du Bois ascertains the *Total Damages* by adding the value of land taken plus the *Severance Damage* which is the basis of his opinion as to the just compensation due his client.

J. Alvin Register, M.A.I.,
Jacksonville, Florida.

B

I have read over Mr. du Bois' appraisal with a good deal of interest. I have a general aversion to appraisals based on estimated earnings from a proposed building. However, Mr. du Bois developed this point quite carefully. There is just one question which I should like to ask: his value of $60,000 for the plot is $341 per front foot for property on the main highway with a depth of 145 ft. Let us assume, for point of comparison, that the frontage on the side street, Poppy Lane, is only 130 ft. (or the amount after the condemnation is made). If the frontage on Poppy Lane were but 130 ft. would Mr. du Bois recommend that his client purchase an additional adjoining strip on Poppy Lane 15 ft. with a depth of 176 ft. and pay for this strip $11,808 or $787 per front foot for Poppy Lane frontage? Unless this is a price which the purchaser could properly afford to pay for this 15 ft. strip, then I would feel that the figure of $11,808 were excessive.

Norman L. Newhall, M. A. I.,
Minneapolis, Minn.

C

In my opinion the appraisal of 3350 to 3370 Arterial Street, Los Angeles, by Mr. Ayers J. du Bois is very good in logic and presentation. It is felt, however, that some improvements are possible and the following comments are offered in the interests of advancing the profession of appraising.

The method pursued by Mr. du Bois consists of establishing the present value of the land through determining the use to which the property could be put and the land value developed therefrom. The square foot value is determined and applied to the portion of the land taken to arrive at the damages. An additional item of severance damage is computed due to the effect on the value of the entire holding through taking this strip of land.

In cases of this kind it seems preferable to me to compute the total value of the property before and after the improvement. The difference between the two values represents the loss to the owner of the property. Such a method would combine the value of the land taken as well as damage to the balance of the property. In this instance only land value is considered since the improvement apparently does not affect the present buildings, although no plat is submitted showing the location of the present buildings on the lots.

The method followed in determining the present value of the land, by determining the proper improvement for the location and computing the land value developed by such an improvement, is correct in my opinion. I would call attention, however, to the lack of supporting data indicating that the proposed structure was justified at the present time and could be rented at the rental indicated. I assume that such a building would be justified at the present time or it would not have been used in the appraisal, but the

supporting data would have been an important addition to the appraisal.

The estimated costs of the building and furnishings are given without any supporting data. It would seem to be desirable to furnish more detailed information concerning the specific type of building and the basis of the costs thereof with similar information for the furnishings.

The estimated rental is placed at $82,080 without an explanation of the method of arriving at this figure. Under ordinary circumstances the rental of apartment buildings will not be maintained at a constant level during the life of the property, usually declining as the property becomes older. This may have been taken into consideration in estimating the rental value, but it is not so indicated. One of the main objections that has been raised to the establishment of value based on income has been the basis of computing the income. It is of utmost importance that careful study be given to the future income possibilities of the property in order that the estimated rental may be as accurate as possible, based upon facts available.

Mention is made of the probability of the site being zoned in the near future for commercial activities. If such re-zoning is sufficiently probable to justify consideration, it would seem to be desirable to compute the value of the land under such development.

As mentioned above, it is my opinion that the value of the property before and after the improvement should be computed, the difference representing the loss. Under such a method a separate computation of a severance damage would not be necessary. However, since this method has been followed I feel the following comments are in order.

In computing the severance damage Mr. du Bois takes into consideration only the increased cost per square foot for management, assuming certain items of expense will continue the same while other items of expense will be decreased proportionately. It would be my recommendation that it would be more accurate to submit detailed information and figures concerning the property on the smaller lot rather than make the computation as given in the appraisal. It is possible that the cost of the building on the smaller lot will be higher in proportion to the cubic contents and area due to the fact that in all probability the elevator equipment and other items of similar nature will be the same in both buildings. In addition, the rentals may not vary in proportion to square foot area since the loss in space may result in deduction in the number of lower rental apartments rather than the higher rental apartments. This could only be determined through a detailed analysis of the buildings which should be erected on the present lot and the lot after the improvement has been completed.

Mr. du Bois makes the statement that, "Capitalized values resulting from analyses of the foregoing nature are not to be regarded as absolute indicators of value, in a quantitative sense, as slight variations in the estimates will materially affect the result; carefully made, however, such analyses do form valuable aids to one's judgment in determining fair value of property."

He further states "The 'projected-building' idea, or illustration, is resorted to merely to lay a foundation for my opinion that some severance damage will be caused, as well as to afford somewhat of a guide in estimating the amount of such damage."

By these two statements he apparently creates an impression that factors other than income analysis are more important. Where income properties are involved there is no better

basis for value than the future income which can be developed from the property and, while not "absolute indicators of value, in a quantitative sense," they should be the basis for value of such properties and not "resorted to merely to lay a foundation" for his opinion.

It is realized that the appraisal probably was made for submission in court, and courts have not been educated as yet to accept valuations based on projected earnings. The education of courts in correct appraisal methods should be one of the functions of the Institute. It is to the end of improving methods that the above comments have been made.

Joseph B. Hall, M. A. I.,
Cincinnati, Ohio.

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Goldstone—Appraisal of a Business Property*

A

Under Title No. 4 Mr. Goldstone makes it appear that strictly to conform to the Appraisal Standards of the National Association one must, in determining market value as defined by those Standards, make an estimate of future gross rents, future operating expenses, and future net earnings of an investment property for *each year separately* of the term assigned as the remaining economic life of the existing building. Such a belief is not correct. If an appraiser's basis for making an estimate of "future benefits" is such as to enable him to discern probable changes in the quantity of those benefits at certain times, then he naturally would set up in his calculations a time-series of benefits; if he has no basis for estimating such changes, or if he believes there will be none, then he would do as Mr. Goldstone has done, viz., assume that the benefits will accrue each year (either actually or on the average) in equal amounts. Title No. 4 advances the claim that in the instant case the method followed (which assumes that the future benefits will be equivalent to an *unvarying* sum for the remaining economic life of the building, plus an *unvarying* sum, i. e., land earnings, in perpetuity) is more "conservative" than the practice of estimating the benefits as a series of *varying* earnings, for the reason that the uncertainties of the future with respect to commodity prices, labor, and material costs, and the economic structure generally, are such as to make estimates of future changes in the benefits mere "guesses" without reasonable bases. However, if those uncertainties make an estimate of *changing* benefits mere guesses, they also make an estimate of *unchanging* benefits just as questionable. Title No. 4 doubtless contains the *hidden* assumption that estimates of changing benefits always provide for "increase"-changes which Mr. Goldstone believes cannot reasonably be expected or estimated in the case at hand, so that it is more conservative to assume "stabilized" (which presumably means "level" or "unchanging") benefits. But if, as he says, 100% locations may become 50% locations in less than ten years and become blighted areas even, may it not possibly be more conservative to estimate a time-series of benefits (which could and might provide for *declining* earnings, even as some of his "stabilized" rents reflect declines from actual rents being paid) rather than to assume and use a level series? It might appear that Mr. Goldstone has estimated the rentals for only two or three years in the future, for he defines "present rental value" as the "stabilized" rentals for the "next few years". Such is not the case, however, for his method assigns these same rents in perpetuity for the land and for 25 years in the case of the improvement. If his estimate was only for the next few years,

*Mr. Goldstone's Appraisal appeared in the October, 1932 issue of this Journal on pages 56 and 57.

then the present worth of the estimated benefits for those few years *only*, plus the present worth of the reversion would determine his *calculated* value (meaning the result of the mathematical calculations, which may be different from the final value assigned, for mathematical capitalizations are not to be blindly accepted as absolute quantitative indicators of value). It might also well be questioned whether the estimate of "operating expenses" (which checks closely with actual outlays for 1930 and 1931) should not show some future changes. The taxes (32% of income) seem very high, and the "repairs and decorations" item ($400 for a $130,000 store-and-office building) seems very low (probably based upon the outlay for the previous year or two, which is not a good guide for the future). It might be possible to estimate some changes in these items at least.

Mr. Goldtone's *method* is not here criticised so much as the *concepts* advanced in justifying its use. It may be said, however, that the method he used is one in which quite generally the data relied upon are concerned almost entirely with the past and the immediate present, whereas in appraising the value lies *wholly* in the future, to which the past may be a very poor and misleading guide. It is towards the *future* that our gaze, in the main, needs to be directed.

Ayers J. du Bois, M. A. I.,
Los Angeles, California.

B

On page 56 of the October, 1932 Journal of the American Institute of Real Estate Appraisers—

Just a very minor detail—but why should Bracton Goldstone "respectfully beg" to certify, etc., in his certificate? Age-old custom is responsible for this—but such a term certainly is out of place in such a comprehensive, complete, and business-like report. A better start for a certificate is "The undersigned certifies that he has—etc."

And in the first paragraph on the next page "please" is not necessary.

Am sure Brother Goldstone will accept this comment in the spirit it is intended.

W. S. Guilford, M. A. I.,
Sacramento, Calif.

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Market Value

A real estate appraisal is nothing more or less than the opinion of the appraiser, based upon his conception of the various elements which make up value as weighed by his experience.

In the days before the present more scientific approach to this subject, a complete appraisal constituted the statement by the appraiser "I estimate the value of the property at so many Dollars"; with possibly a photograph or diagram to boot.

As the work of appraising developed along more scientific lines reports became more and more elaborate until today it is a question in my mind whether this elaboration is not in danger of being carried too far, and that the high points which should stand out prominently as the real factors of value may not be overshadowed by what may be termed "window dressings" and "fillers-in" to give the report more pretentious appearance.

It will be acknowledged that every request for an appraisal is followed by the appraiser's inquiry "for what purpose is the appraisal to be used". Therefore, I say that it is folly to dispute the fact that a given property can have different values at the same moment, depending upon the purpose for which the value is found.

This brings us down to a much discussed question of *what is value*? In my opinion the word *value* alone in the appraisal of real estate has not sufficient specific meaning to be fully interpreted unless it is modified to indicate the kind of value meant. If the value to be found is that as between a willing buyer and seller we term it *market value*. If the value to be found is that upon which an insurance company, mortgage company, financial institution, or other loaning agency coming under Governmental supervision would make a loan we might call it *loan value*. If the value to be found is that which the Tax Assessors has been directed by the tax laws of his Community to use for levying taxes we might call it *tax value*. If the value to be found is that which an industrial corporation, a private owner, or the Public Utilities would require for the purpose of accounting, we might call it *book value*. If the value to be found is that to which an owner would be entitled to "make him whole" in condemnation proceedings, we might call it *condemnation value*.

In each of the foregoing cases the factors which enter into the determination of value are different. Other terms such as Normal Value, Warranted Value, etc., have been used. These terms, however, are not specific enough to indicate their true meaning. For example: Market Value may be a Warranted Value, it may be Normal Value; but the use of the term Market Value is so well known and so often referred to as the price at which the minds of a buyer willing but not compelled to buy, and a seller willing but not compelled to sell, meet, that it would seem only to add to the confusion to attempt now to put any other interpretation upon this already well established term.

Loan Value specifies the purpose for which the valuation is to be used. It may be Market Value, but in the final analysis it may go still further into the consideration of elements which do not enter into Market Value. The condition of the money market undoubtedly would affect the loan value, particularly so as the Loaning Institutions are regulated by law as to the percentage of value upon which they shall loan. Loan value may further take into consideration not only the local conditions which may be the factors which control Market Value, but may be regulated by conditions in other communities. If for example: in one part of the State a certain type of property is over-built, or if the loaning agencies have an excess of certain types of loans, the Loan Value of a similar property in another community might thus be affected. There are many conditions which affect Loan Value, particularly when consideration is given to properties of a specialized type such as garages, theatres, and other properties whose utility is limited to a particular use.

While *Tax Value* in most States is based upon "Full Value, or as it is sometimes termed True Value", it is not necessarily Market Value, because of the fact that properties for taxing purposes are required to be re-assessed each year. The Tax Value therefore is the value of the property for the specific year, and should not therefore include all the rights of future benefits to ownership. Tax Value being for the limited period of one year should also take into account the conditions of the times, and should to a greater extent than in the past be based upon present income.

The law in most States provides *Condemnation Value* shall be the Market Value, but the law further specifically states that the owner who has been deprived of his property shall be "made whole". Different from Market Value, Condemnation Value does not indicate a willing seller, so that in this

respect it may be defined as the value to a willing buyer from an unwilling seller compelled to sell but who must be made whole.

The foregoing references are simply made to touch on the various phases of the subject, to emphasize the high points for discussion.

There is still another value which has not been mentioned but which relates only to improvements, and that is *Insurance Value.*

The *Insurance Value* on improvements does not take into consideration the elements of value in the same manner as Market Value, because of the fact that in Market Value the question of obsolescence, or improper improvement of a parcel of land is accounted for in the valuation of improvements, while Insurance Value eliminates these elements and takes into consideration only the replacement value, less physical depreciation. This brings us to the subject of the Summation Appraisal to which there has been so much objection from many sources.

In my judgment there should be no objection to a Summation Appraisal provided both the land and building are appraised by the same appraiser, or, if appraised by separate appraisers, that the summation of the appraisals be certified to by the Real Estate Appraiser as constituting the true value of the property. It would be the duty of the real estate appraiser in the use of the Summation method, to state whether or not the total of the value of the land plus the value of the improvements thereon, represented the true value of the property as a complete unit, and if not to make such changes in the value as the circumstances would warrant.

What I wish to emphasize is that Market Value is the basic value of real estate, that Market Value is the price which property would bring when it is offered for sale by one who desires, but is not obliged to sell, and is bought by one who is under no necessity of having it; determination of such price to be as of normal times, and not affected by the speculation of boom periods or the distress of depression.

Real Estate being a slow moving commodity should not be valued by the barometer of liquid securities, but should be stabilized over a reasonable period in which productivity may be definitely relied upon.

These other values such as Loan Value, Tax Value, Book Value, and Condemnation Value should all be based upon Market Value and should vary as to their respective relationship to it.

A term which has recently been used *Warrantee Value* may be regarded as fully contained within the term Market Value, but as has already been said, such terms as Normal and Warranted Value lack definite description and may be misleading in so far as they may have many meanings.

E. J. Maier, M. A. I.,
Newark, N. J.

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Concept of Value

In order to arrive at value to be expressed in dollars in any appraisal, it becomes necessary for the appraiser to formulate his own concept and then express it in clear and unmistakable language, so any person seeing the appraisal may understand the appraiser's angle of approach or point of view.

I believe that the following expression is clear and conveys the thought intended in a large majority of cases referring to the property as a whole and the land in particular:

"The normal market value for the

highest general use." This would include Industrial, Warehouse, Steamship, Commercial, Mercantile, Apartment House, Residential, Farm, etc.

Railroad, Oil Stations, Utilities, Rights of Way, etc., are strictly special uses and may possess a value out of line with lands circumjacent thereto part of which may be franchise value. Such conditions should be noted if considered and reflected in an appraisal and appropriate references made thereto.

As land underlies all real property it has a value by itself which I can best define as follows: *Land value* is *locality value* or the price a piece of property should bring at the date of appraisal in the position where located and nowhere else brought about by the development of the circumjacent territory of which it is an integral part and adds to or deducts from as the case may be.

That being the case I believe that the land value should first be determined and the value of the property as a whole, deducting the land value from the value of the whole will show the residual value of the improvements.

Otherwise we cannot avoid being placed in the illogical position of stating that the same area of similarly situated adjacent land has a different value. The suitability to location and condition of an improvement, earning capacity as a whole all effect and control their value.

However, a property should be analyzed, checked, and compared with various other methods, differences weighed and reconciled by application of common sense, experience, and judgment.

Percy A. Gaddis, M. A. I.,
Jersey City, N. J.

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Appraising for Tax Adjustments

The exact and scientific appraisal report, computed, drawn, and presented in the professional manner, has come to be an increasingly important factor in the daily business life of the Realtor. As a guide to real estate investment it has always been invaluable; in the settlement of estates it has smoothed the furrowed brows of attorneys; and, in a new and entirely appropriate role, it is steadily coming to be a boon to the bewildered taxpayer.

It is this last phase of the appraisal report's many-sided personality with which this article will deal. At about the time when the invariable answer to "How's business?" had come to be the original and brilliant "There isn't any," I began to cast an intrigued eye at a hitherto neglected stepchild of my office routine, "Appraising". In a town of 35,000, it is generally expected that a veteran real estate man should be able to cast a knowing eye up and down, left and right, across a piece of property, bite the end off a new cigar, sample the owner's home brew, and wind up with a "Wal, I guess $18,000 would be about right."

But an accurate, unassailable, cold-blooded appraisal of land and improvements including all the data needed to back it up in a court of law, is seldom seen. It is not a lawyer's work and it is not an auditor's work. There is but one profession to which it is kin, and that is the real estate business.

When a common citizen receives a tax statement which, for some reason, he feels to be exorbitant, he rarely carries his complaint to the right quarters. He talks it over with the man next door, his barber, or his boss, grumbles a bit around the house, pays and hopes for relief after the next election. Seldom, if ever, does he take his grievance, in orderly fashion, before the board of review. And when he

does he is incoherent with what he feels is the injustice done him, consuming the time of the board with loud, irrelevant arguments. Sometimes, even the owner of mercantile property, whose tax bill runs into the thousands, neglects to study tax matters and pays until he can pay no more.

An assessor, whose duties cover an entire township, cannot give to each individual property the close attention that insures absolute accuracy. Some condition peculiar to a particular site alone, that might slash the owner's tax bill by 25%, may go unnoticed year after year.

This was the case in a recent tax complaint that found its way to my office. A large building in the heart of the city, housing both offices and apartments, had been assessed at $216, 860.00 for a number of years. My appraisal of the land and improvements came to $147,541.05. The condition "peculiar to that site" was that the building had been constructed on the bank of a ravine, which dropped from 10 feet below sidewalk level in the front to 30 feet at the rear of the building. In my appraisal I deducted the amount expended for that part of the construction necessary to bring the slope to a level, as being neither land nor income producing improvement.

In another instance, a very old building used as the surburban residence of a wealthy Chicagoan, had been assessed at too high a figure because of the exclusive neighborhood in which it was located. In this case the owner had paid a premium for the seclusion and residential restrictions of the site—a bonus which in no way effected the diminishing value of the improvements.

Again, taxes will remain the same for years, without the usual allowance for depreciation of the improvements. At times the taxpayer will find that he is being assessed for the amount he paid for his property eight years ago, despite the enormous drop in real estate values.

In presenting complaints before the Board of Review I have found it advisable to have an attorney present the case, myself appearing as a qualified expert witness. The appraisal itself has, of course, been drawn up beforehand, containing both the assessor's valuation and my own, with reasons for the requested reduction. The document is left with the board for their perusal, following the hearing and pending their decision.

In this way it may be possible for a number of eager students of appraising to apply their knowledge to a practicable use and make it an item of considerable income to the office. The confidence and respect of the assessor and the Board of Review can be commanded and retained by a true knowledge of the facts and a proper attitude in presenting them.

By Oscar Soderquist, M. A. I.,
Waukegan, Illinois.

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Damages to Buildings

I wonder in what terms other real estate appraisers have measured the damage done to residences and other buildings that have to be moved for street widening. I refer only to structural damage and not inclusive of awards for land taken, the cost of supplying services and putting the house in tenantable condition again.

Two real estate men of experience and myself were engaged by a property owner in a recent trunk line condemnation involving the setting back of a house about twenty feet. Among other items of award we concluded that the owner was entitled to no less than twelve and one-half percent of the value of the building for structural strains and the many chances of misplacement that might become ap-

parent not only at once, but over a period of years. We agreed that houses were built on walls, and while building movers testified the job could be done without substantial damage, we expressed belief that any lifting from the foundations might produce results requiring repairs at once or later. Further, doubt was expressed that, despite care, the house might lack an exact fit on the new wall built for it, and that this and other earmarks of moving would prejudice it in the market. What owner, we said, would permit a mover to experiment with his house for an eighth of its value.

The commissioners in the proceeding made an award which indicated some acceptance of this testimony.

Frank B. McKibbin, M. A. I.,
Lansing, Michigan.

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Market Prices of Vacant Lots

Market prices of lots in any given neighborhood do not, as a rule, remain the same over a considerable period of time. The question then arises: What makes these values change? And if in a given locality, values have been moving steadily upward, is this evidence that they will continue to do so in the future?

We may state the matter very briefly by saying that the market prices of lots in a community at any given time are fixed by the demand for a certain grade or kind of lots, and the supply of lots of this type. By demand we mean simply the number of lots that people are actually buying. The number of people buying residential lots is in turn determined by the number of prospective home builders or home owners in a given city. Accordingly this will depend largely upon the rate of increase in the city's population, and upon the rate of income which prospective home owners may have.

The demand, however, represents only one side of the picture. The other side is to be seen in the number of lots of a given character or class that are available in the city. A city may, for example, be so nearly one hundred per cent built up, that the number of vacant lots available is very small in comparison with the number of lots people are willing to buy. In that event, the price per lot which buyers will have to pay will generally be decidedly higher than would be the case if such lots were more plentiful. Those who cannot afford to pay these prices must content themselves either to do without, or they must move to an outlying section of the city, where lots are still plentiful, and prices accordingly lower.

The market for lots in a city may be compared roughly to an auction in which the choicest lots go to the highest bidders, the somewhat less choice locations to a lower group of bidders, and so on down. The prices of lots in this process will be determined therefore, solely by the number and purchasing ability of bidders, (demand) and the number of lots of a given grade or quality offered for sale, (supply).

—From the National Association of Real Estate Board's course on Real Estate Appraising.

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New Members

At the Regular Quarterly Meeting of the Governing Council, held in Chicago on November 17, 1932, the following were elected to the grade of Member in the American Institute of Real Estate Appraisers:

A. J. Delano, Sacramento, California

Appraiser, Prudential Life Insurance Company; Treasurer, Robertson-Govan Company; Treasurer, Robertson-Govan Investment Company; Treasurer, Property Finance Corporation; Vice President of Appraisal Division, Sacramento Real Estate Board; Director, Fidelity Title Insurance Company; Secretary-Treasurer, Sacramento Real Estate Board; Member, Sacramento Planning Board.

Thomas Francis Mason, Wilmington, California

Active member, Los Angeles Realty Board; immediate past President, Wilmington Rotary Club; past President, Wilmington Chamber of Commerce; entered real estate business in June, 1923 with Taft Realty Company; studied real estate and real estate appraisals in the University of Southern California.

Henry Musch, Jr., New Haven, Conn.

Past President and Active member, New Haven Real Estate Board; twelve years experience in the general real estate business; ten years experience in the appraising of real estate; has kept record since 1913 of rentals, leases, material prices, construction costs, and wage schedules, all of which are indexed to 1913 base for local territory and some important outside towns; has developed a special file containing 2,000 photos of New Haven real estate, together with 5,000 detailed property descriptions.

Lawrence K. Tucker, Jr., Jacksonville, Florida

President, Tucker Brothers, Inc.; Vice-President, Finley Tucker & Brother; Loan correspondent for the Fidelity Mutual Life Insurance Company of Philadelphia; servicing agent for Florida for the Bankers National Life Insurance Company of Jersey City, New Jersey; servicing agent for Jacksonville for the Calvert Mortgage Company of Baltimore; member, Appraisal Committee of the Jacksonville Real Estate Board; active class "A" member, Jacksonville Real Estate Board; Director, Gulf Life Insurance Company of Jacksonville, Florida; Director, Florida Title Guaranty Company; former Director, Jacksonville Real Estate Board; past President, Jacksonville Mortgage Loan Brokers Association; twenty-five years in the real estate and general insurance business.

George F. Brass, Orlando, Florida

Active member, Orlando, Florida Realty Board; member firm, Brass & Condict, Realtors; 1st Vice-President, Florida League of Municipalities; member, Orlando City Commission; graduate, real estate appraising course, National Association of Real Estate Boards; member, Tax Equalization Board, City of Orlando; Chairman, Planning and Zoning Commission, City of Orlando.

Harold V. Condict, Orlando, Florida

Active member, Orlando, Florida Realty Board; partner, Brass & Condict, Realtors; graduate, real estate appraising course, National Association of Real Estate Boards; formerly associated in Trust Department work with Chase National Bank, New York Trust Company, and State Bank of Orlando & Trust Company.

Fred L. Palmer, Sarasota, Florida

Secretary, Sarasota Real Estate Board, of which he is a broker member.

Charles P. Glover, Tampa, Florida

Active member and past President, Tampa Real Estate Board; past President, Atlanta Real Estate Board; past President, Florida Association of Real Estate Boards; Florida real estate commissioner; past chairman of Appraisal Commission, Florida Assn. of Real Estate Boards; President, Charles P. Glover & Associates; President, Charles P. Glover Company; Vice President, Sunset Park Holding Company.

Frank R. Jewett, Vero Beach, Florida

Active member and President, Vero Beach Real Estate Board; owner and manager, Jewett Appraisal Service; Vice President, Florida Association of Real Estate Boards.

Bryan M. Grant, Atlanta, Georgia

Active member, Atlanta Real Estate Board; President, B. M. Grant Company; Presi-

dent, Merchants & Mechanics Bank & Loan Co.; 20 years experience as an appraiser of business, residential, industrial, and acreage properties.

Walter R. Kuehnle, Chicago, Illinois

Secretary, Harry S. Cutmore & Associates, Inc.; former member Appraisal Committee, Chicago Real Estate Board; active member, Chicago Real Estate Board; instructor in Real Estate Appraising at Central College of Commerce, Chicago; assistant to Mr. Cutmore in the reassessment of all property in Cook County, Illinois; superintended the appraisal of $30,000,000 worth of real estate of all kinds for receivers of closed banks; has appraised properties in Iowa, Missouri, California, Oregon, and Florida.

Ralph V. Field, Galesburg, Illinois

Active member, Galesburg Real Estate Board; Executive Director, Illinois Association of Real Estate Boards; former President, Illinois Association of Real Estate Boards; member, National Committee on Real Estate Education, N. A. R. E. B.; member, States Council, N. A. R. E. B.; Vice-Chairman, Real Estate License Committee, State of Illinois; Vice-President National Association of License Law Officials; lecturer on and author of miscellaneous articles on real estate appraising and related subjects; teacher of real estate courses in the Galesburg Real Estate Board; active in the real estate business since 1903.

Oscar Soderquist, Waukegan, Illinois

Active member and past President, Waukegan-North Chicago Real Estate Board; former Chairman of local board Appraisal Committee; appraiser for Queen Insurance Company of America.

James R. Davidson, Gary, Indiana

Active member and Secretary, Gary Real Estate Board; Vice President and Treasurer, Davidson & Davidson, Inc.; member, Associated Building Contractors of Gary; business includes brokerage, loans, management, and appraisals.

Oregon Milton Dennis, Baltimore, Md.

Active member, Real Estate Board of Baltimore; attorney at law; member Baltimore City Bar Association; member, Maryland State Bar Association; member, American Bar Association; special assessor, Appeal Tax Court of Baltimore since 1918; consulting appraiser for various financial organizations.

Albert C. Hofrichter, Baltimore, Md.

Active member, Real Estate Board of Baltimore; President, B. Howard Richards, Inc.; specializing in local and inter-city retail store locations in the North Central Atlantic States and adjacent territory.

James D. Henderson, Boston, Mass.

Active member, Boston Real Estate Exchange; member firm of Henderson & Ross; member, Brookline, Massachusetts Zoning and Planning Board; author of text book entitled "Real Estate Appraising"; author of numerous articles for the National Real Estate Journal, Boston Transcript, Boston Post, Boston Herald, Banker & Tradesman, and insurance journals.

J. Frederick Beckett, Fall River, Mass.

Active member, Fall River Real Estate Board; President, Massachusetts Association of Real Estate Boards; owner, Highland View Land Company; owner, New Boston Road Land Company; Treasurer, Queen Realty Company; member, Investment Board, Union Savings Bank; Director, Troy Co-operative Bank; Director, Fall River Chamber of Commerce; instructor in real estate appraising in the Y. M. C. A. schools.

Myer Markell, Fall River, Mass.

Active member and Director, Fall River Real Estate Board; Director, Massachusetts Association of Real Estate Boards; President, Fall River Underwriters Board; Chairman, Chamber of Commerce New Industries Committee; member of Executive Committee, Fall River Chamber of Commerce; Director, Rialto Amusement Company, Inc.; Director, Fall River Theatres Co., Inc.; in the real estate business since April, 1915; taught the course in real estate appraising at the Y. M. C. A. of Fall River, Mass.

Paul A. Kern, Pontiac, Michigan

Active member and President, Pontiac Real Estate Board; member, Legislative Committee, Michigan Real Estate Association; former general sales manager for Floyd Kent, Realtor; Secretary and Treasurer, Kent and Kern.

N. S. Wood, St. Louis, Missouri

Active member, St. Louis Real Estate Exchange; President, N. S. Wood, Inc.; in the real estate business exclusively in St. Louis and St. Louis County since 1893.

Stephen F. Barrera, Brooklyn, N. Y.

Active member, past President, and member Appraisal Committee, Brooklyn Real Estate Board; 27 years experience in general real estate business.

Lewis H. Pounds, Brooklyn, N. Y.

Active member and past President, Brooklyn Real Estate Board; former Treasurer, State of New York; former Commissioner of Public Works; former President, Borough of Brooklyn; former member Committee on Docks, Port and Harbor Developments; specialized in appraisal work and court testimony since 1918 having appraised properties totaling in value from $150,000,000 to $200,000,000.

Percival V. Bowen, Buffalo, N. Y.

Active member, Buffalo Real Estate Board; member, Bowen and Bowen; member, J. C. & P. V. Bowen, Inc.; member, Bowen Securities Corporation.

Frank D. Hall, New York City, N. Y.

Associate member, Wichita Real Estate Board (Wichita, Kansas); Chief Appraiser, the Equitable Life Assurance Society of the United States, New York City; President, Monarch Investment Company, Wichita, Kansas; appraises property in Kansas, Oklahoma, Texas, Arizona, Utah, Washington, Oregon, and California; supervises all appraisals for mortgage loans in the United States submitted to the Equitable Life Assurance Society of the United States; member, special tax code commission, State of Kansas, 1929-30; conducted appraisal classes in the Wichita, Kansas, Real Estate Board, 1927-8; experienced as civil engineer on railroad construction; former bank cashier; 25 years in the city mortgage lending business; 4 years appraisal supervisor for the Connecticut General Life Insurance Company, in Kansas, Missouri, Nebraska, Oklahoma, and Texas; 2 years residential appraiser, Metropolitan Life Insurance Company in Kansas.

Claude L. Baker, Akron, Ohio

Active member, Akron Real Estate Board; Treasurer, The Herberich-Hall-Harter Company; Vice President, The Herberich Realty Co.; Treasurer, The Colonial Investment Corp.; member, Akron Appraisal Committee for the Prudential Life Insurance Company.

Mark Hambleton, Canton, Ohio

President, Mark Hambleton Company; Director, Executive Committee, The Title Mortgage Company, Canton, Ohio; Director, Better Business Bureau; Confidential adviser, and authorized real estate agent for H. H. Timken of the Timken Roller Bearing Co., Canton, Ohio; active Member and Past President, Canton Real Estate Board; past Vice President, Ohio Assn. of Real Estate Boards; past Director of Appraisal Committee, Canton Real Estate Board.

Fred Droege, Jr., Cincinnati, Ohio

Class "B" member, Cincinnati Real Estate Board; President, The Burgess, Droege & Spilker Company; served on various committees in the Cincinnati Real Estate Board over a period of twelve years.

James W. Farrell, Cincinnati, Ohio

Class "B" member, Cincinnati Real Estate Board; suburban and subdivision Sales Manager of the Frederick A. Schmidt Company; appraiser, Cincinnati district for the Metropolitan Life Insurance Company; experienced in the appraisal of various types of improved, residential, industrial, and commercial property since 1917; former Secretary, the Homan Manufacturing Company; Estimator and Superintendent, The Leibold Farrell Building Company.

John H. Frey, Cincinnati, Ohio

Class "E" member, Cincinnati Real Estate Board; employed by the Frederick A. Schmidt Company; A. B. degree, The Xavier University, Cincinnati; L. L. B. degree, The Xavier University Law School, Cincinnati; holder of certificate for completing National Association's course in real estate appraising.

Russell Price, Cincinnati, Ohio

Class "E" member, Cincinnati Real Estate Board; salesman and subdivision Manager, Frederick A. Schmidt Company; seventeen years experience in the real estate business; appraisal experience includes general appraising for sales purposes, appraisals for loan purposes, special appraisals, subdivision appraisals, and participation in the re-appraisal of Hamilton County, Ohio, for tax purposes in 1931.

Lewis R. Smith, Cincinnati, Ohio

Active member, Cincinnati Real Estate Board; appraiser for the City of Cincinnati; the County of Hamilton, the State of Ohio, the Federal Government; Appraiser for the B. & O. Railroad, the Pennsylvania Railroad, the C. C. C. & St. L. R. R., Erie Railroad, Dayton Union Railway, Norfolk and Western Railway, Chesapeake and Ohio Railroad.

John B. Spilker, Cincinnati, Ohio

Class "A" member, Cincinnati Real Estate Board; Vice-President, The Burgess, Droege & Spilker Company; specializes in subdivision and residential property, instructor in real estate appraisals at the University of Cincinnati and the American Bankers Institute; served six years as Trustee, Cincinnati Real Estate Board; served three years as President, Cincinnati Real Estate Board; served one year as President, Ohio State Association of Real Estate Boards; was elected one year director, National Association of Real Estate Boards.

Joseph J. Haas, Cleveland, Ohio

Member, P. J. & J. J. Haas, Realtors; class "A" member, Cleveland Real Estate Board; Director, Southwestern Savings & Loan Company; member, Bank Appraisers Association; member, Valuation Committee, Cleveland Real Estate Board 1926-1929; Treasurer, Cleveland Real Estate Board, 1931; 1st Vice-President, Cleveland Real Estate Board, 1932-1933; member, Board of Trustees, Cleveland Real Estate Board, 1930-1933; appraiser for Clark Avenue Savings & Trust Company, 1914-1930; appraiser for Pearl Street Savings & Trust Company, 1914-1930; appraiser for Southwestern Savings & Loan Company since 1930; appraiser for Home Mortgage Company, Residence Mortgage Company and Peoples Investment Company since 1919.

Alexander S. Taylor, Cleveland, Ohio

Active member, Cleveland Real Estate Board; past President, National Association of Real Estate Boards; President, V. C. Taylor & Son, Inc.; President, The Corydon Realty Company; Director, The Guardian Trust Company; Director, The Guarantee Title & Trust Company; Trustee, Society for Savings; 44 years experience in real estate appraising.

V. C. Taylor, II, Cleveland, Ohio

Class "A" active member, Cleveland Real Estate Board; Vice-President and Treasurer, V. C. Taylor & Son, Inc.; Vice-President, The Corydon Realty Company; Chairman, Valuation Committee, Cleveland Real Estate Board; formerly Trustee, Cleveland Real Estate Board; Yale University, 1919; in real estate business since July, 1919.

Howard W. Etchen, Toledo, Ohio

Active member and First Vice President, Toledo Real Estate Board; President, Suez Realty; President, The Etchen-Lutz Company; President, Model Homes Building Company.

William C. Bader, Bethlehem, Penn.

Vice-President, Secretary and Treasurer, Mack & Bader, Inc.; Secretary and Treasurer, Bethlehem Real Estate Board; territory—city of Bethlehem and adjacent territory in Northampton and Lehigh Counties; Active member, Bethlehem Real Estate Board.

Evan J. Miller, Harrisburg, Penn.

Owner Miller Brothers & Company; active member and President, Harrisburg Real Estate Board; Treasurer, Pennsylvania Real Estate Association; member, Harrisburg Association of Insurance Agents; former Secretary, Pennsylvania Real Estate Association; in charge of building operations for Union Real Estate Investment Company, Bellevue Park, Harrisburg, Pennsylvania.

C. Harris Colehower, Philadelphia, Pa.

Active member, Philadelphia Real Estate Board; conveyancer, Mutual Success Building and Loan Association; Director, East Lansdowne Building Association; has appraised more than 3,500 properties including small dwellings; large apartment houses, factories, garages, and business properties.

C. A. Leighton, Wilkes-Barre, Penn.

Active member and past President, Wilkes-Barre Real Estate Board; President, C. A. Leighton Company; Manager, Deposit and Savings Bank Building.

James Devine, Providence, R. I.

Active member, past Director, and past chairman Appraisal Committee, Providence Real Estate Exchange; Secretary and Treasurer, The Appraisal Company of Rhode Island, Inc.; President and Treasurer, The Angell Land Company.

J. W. Denis, Nashville, Tennessee

Active member and President, Nashville Real Estate Board; President, J. W. Denis Company; former appraiser, Union Central Life Insurance Company; former appraiser, Nashville Building and Loan Association; former appraiser, Franklin Bond and Mortgage Company; former appraiser, Atlantic Life Insurance Company; appraiser, Connecticut Mutual Life Insurance Company.

Edward M. Ashton, Salt Lake City, Utah

Vice-President, Ashton-Jenkins Company; Vice-President, Intermountain Building & Loan Association of Utah; associated with Intermountain Building & Loan Association of Arizona; associated with Home Building & Loan Association of Utah; associated with First National Building & Loan of Utah; class "A" member, Salt Lake Real Estate Board; 10 years experience in local savings bank; 25 years business activity with Ashton-Jenkins Company, Realtors; past President, Salt Lake Real Estate Board; past President, Utah Real Estate Board; past President, Utah Mortgage Bankers Association; past President, Salt Lake Chamber of Commerce; 10 years experience as correspondent of Equitable Life Assurance Society; for many years identified with real estate board appraisal committee of the Salt Lake Real Estate Board; actively affiliated with the Zoning Commission of Salt Lake City.

J. Guthrie Smith, Richmond, Virginia

Active member and President, Richmond Real Estate Exchange; Vice President, Laburnum Realty Corp.; Vice President, Westover Hills Corp.; Vice President Rothesay Extension Corp.; Vice President, Boulevard Bridge Corp.; President, Westover Hills Sewerage Connection Corp.; Director, Bank of Commerce and Trusts; past member Appraisal Committee, Richmond Real Estate Board; 14 years general real estate experience.

Bert Weir, London, Ontario

Active member and past President, London Real Estate Board; President, Bert Weir & Company; Vice President, Ontario Assn. of Real Estate Boards; Director, Atlas Gas and Utilities Corp. of Chicago.

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By-Laws of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards

(As Amended November 17, 1932)

ARTICLE I

Objects

SECTION 1. The objects of the Institute shall be:

a. The advancement of the science of appraising and evaluating interests in real property;

b. The fostering of knowledge, of integrity, and the fair and accurate judgment of value of real property;

c. The professional advancement of its members;

d. The promotion of technical and scientific discussion among its members;

e. The promotion and propagation of sound, proper, and ethical practices;

f. The promotion of adherence to the Standards of Practice and Code of Ethics of the American Institute of Real Estate Appraisers;

g. The certification and identification of experienced and competent appraisers.

ARTICLE II

Membership

SECTION 1. Membership in the Institute shall be divided into two grades — Members and Affiliates.

SECTION 2. The grade of Member is open to any individual who holds, and remains in good standing in, any form of membership in a Member Board of the National Association of Real Estate Boards and who:

a. Is not less than 25 years of age;

b. Is actively engaged in a responsible capacity and in such manner that his regular duties involve the appraisal of real property. He shall have been actively so engaged with a good record for at least five years, of which not more than two years may have been in allied work, or be represented by university or college work agreeable to the Institute;

c. Satisfactorily establishes his knowledge of and his ability to appraise the mass of individual residential properties, multi-family dwellings up to twenty-five family apartments, and the smaller retail and income properties;

d. Demonstrates his ability to appraise all properties which are standard to and ordinarily encountered in a city or town of fifty thousand in population;

e. Satisfactorily passes a written or oral examination (either or both) given by the Institute.

SECTION 3. The grade of Affiliate is open to any individual who holds, and remains in good standing in, any form of membership in a Member Board of the National Association of Real Estate Boards and who, having a clear record, complies with the membership requirements to the satisfaction of the Governing Council.

SECTION 4. No individual may be admitted to the grade of Member in the Institute unless his application be specifically approved by the Real Estate Board of which he is a member.

In the case of applicants for admission either to the grade of Member or to Affiliate membership, who are prominent professionally and whose principal place of business and principal appraisal activities are in a territory not included in the jurisdiction of any member board of the National Association of Real Estate Boards or where a member board of the National Association of Real Estate Boards does not exist, the Governing Council may waive the requirement of membership in a member board of the National Association of Real Estate Boards as set forth in Sections 2, 3, and 4 of this Article, and, if otherwise qualified, admit such applicants to the grade of membership to which they are qualified in the Institute, provided, however, that if such applicants become affiliated with the Institute and at any time thereafter remove to a community or locality where a member board of the National Association of Real Estate Boards exists or has jurisdiction, they must at once become members of that board in order to retain their affiliation with the Institute; and provided, further, in any event, that if membership in the National Association of Real Estate Boards becomes available to individuals who are not members of member boards, then all applicants and/or

Members or Affiliates not belonging to the National Association of Real Estate Boards must become members therein in order to retain their affiliation with the Institute.

Section 5. Affiliate members may attend the annual meetings of the Institute and have the privileges of the floor but they may not vote or hold office. They shall receive without extra cost a copy of each of the publications of the Institute.

Section 6. All individuals, when making application for membership, shall agree to uphold the constitution, by-laws, principles, and ideals of the Institute and shall further sign an irrevocable waiver of claim against the Institute, or any of its governors, officers, committee members, or other officials as individuals or as a group for any official act in connection with the business of the Institute, and particularly as to its or their acts in electing or failing to elect, advancing or disciplining him as a member.

Section 7. The examination as to qualification for membership will be prepared by the Governing Council of the Institute, or such committees as it may appoint. The examination of candidates may be delegated to the officers of the local Appraisal Chapter of the Institute, where such exists, or to the Appraisal or such other committee as the Board of Directors of the local real estate board may designate, where no local chapter of the Institute exists. The papers and records covering this examination will be forwarded to the Governing Council of the Institute for grading, final judgment, and action on admission and the decision of the Governing Council.

Section 8. All members shall be admitted to the Institute only by a vote of not less than 80 per cent of the entire Governing Council and three negative ballots shall exclude. Candidates for membership shall be examined under such rules of procedure as the Governing Council may determine.

Section 9. Whenever a candidate seeks admission to the grade of Member in the Institute, the Secretary shall send a written notice of such application to all Members, including therein a digest of the candidate's qualifications and stating a time limit for reply which in no case shall be more than three weeks from date of mailing. It shall be the duty and obligation of each Member to reply to such notices and to give the committee notice thereby of any favorable or unfavorable facts known to the Member regarding the candidate. All replies from Members shall be referred to the proper examining committee and considered by them, but kept in strict confidence by the members of such committee. A negative request of twenty Members in good standing, when such requests are made for cause, shall exclude a candidate.

Section 10. The Institute shall exercise effective disciplinary power over its entire membership, including expulsion for cause. Such disciplinary power will be sufficiently self-restrained so that there will be no curbing of the individuality of the member, but will provide control so that the member who fails to conform to the decisions and principles of the majority, may not continue to benefit from a professional status granted him by the organization.

Disciplinary powers will be designed not to curtail ability and freedom of action, but to eliminate incompetency or lack of character or integrity. These powers shall be such that the Institute may effectively force a member to maintain himself to the standards which he has reached and proven to others at the time of his admission to membership.

Section 11. The affirmative votes of at least 80 per cent of the membership of the Governing Council present at the time of balloting shall be required to discipline a member and a minimum vote of two-thirds of the entire Council shall be necessary for expulsion.

ARTICLE III

Certificates

Section 1. Each member shall receive a certificate issued by the Governing Council of the Institute as evidence of the fact that he has satisfactorily met the admission requirements, including examination.

Section 2. The Certificate of Membership as well as any badge or other evidence of membership issued at any time to a Member shall be the permanent property of the Institute and shall be returned promptly to the Secretary of the Institute when the membership of the individual to whom it is issued is for any reason terminated.

ARTICLE IV

Nomenclature

Section 1. All members of the Institute may identify themselves by the initials "M.A.I." which shall be the abbreviation for the words "Member Appraisal Institute." Members may use these initials following their names for any professional purpose, correspondence, etc., as follows: John Doe, M.A.I.

Members may also use the expression "Member American Institute of Real Estate Appraisers of the National Association of

Real Estate Boards" on letterheads, business cards and in other professional forms, provided that such use shall always be dignified, in a manner satisfactory to the Governing Council, and in accordance with such rulings as the Council may issue from time to time.

Section 2. Affiliates shall not be permitted professional identification with the Institute.

ARTICLE V

Dues

SECTION 1. Subsequent to their election, members shall not be entitled to a certificate or any other benefits until the initiation fee, if any, and dues for at least twelve months have been received by the Institute. Failure to make such payment within ninety days of notice of election shall void the election to membership.

All dues become payable on January 1st of each year and in case of memberships accepted subsequent to that date dues for the second year will be adjusted on a quarterly proration.

SECTION 2. The Annual membership dues of Members shall be $20.00.

SECTION 3. The annual membership dues of Affiliates shall be $10.00.

SECTION 4. Each application for admission in the grade of Member shall be accompanied by a $5.00 examination fee, non-returnable.

SECTION 5. Five dollars ($5.00) of the annual membership dues provided for in Sections 2 and 3 of this Article, is for annual subscription to **The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.**

ARTICLE VI

Governing Council

SECTION 1. There shall be a Governing Council consisting of a minimum of sixteen and a maximum of twenty-eight Members, one of whom shall be appointed by the Board of Directors of the National Association of Real Estate Boards, and the balance of whom shall be elected by the Institute from among its membership.

SECTION 2. One-third of the elective members of the Governing Council shall be elected at each annual meeting to serve for a term of three years (except that at the first annual meeting of the Institute five shall be elected to serve for a term of one year, five to serve for a term of two years, and five to serve for a term of three years).

ARTICLE VII

Nominating Committee

SECTION 1. The President, by and with the consent of the Governing Council, shall appoint a Nominating Committee, consisting of five Members of the Institute.

SECTION 2. It shall be the duty of this Nominating Committee to nominate at least one person for each vacancy in the Governing Council of the Institute, which nominations shall be reported by mail to all Members of the Institute at least three weeks prior to its annual meeting. Additional nominations may be made by a petition signed by at least five Members in good standing provided such nominations shall be in the hands of the Secretary of the Institute at least five days prior to the annual meeting.

The report of the Nominating Committee and any additional nominations shall be read at the first meeting of the annual meeting for the information of the Members.

ARTICLE VIII

Election of the Governing Council

SECTION 1. The annual election of one-third of the elective members of the Governing Council shall take place at the second session of the annual meeting of the Institute.

SECTION 2. The election shall be by ballot and every Member in good standing present shall be entitled to one vote.

SECTION 3. The Chairman shall appoint three tellers who shall make a tabulation of the ballots and report to the meeting the result of the votes cast. The Members receiving the highest number of votes for the Governing Council shall be declared elected and the tellers will so certify in writing to the Secretary of the Institute, giving the number of ballots cast for each nominee. Any tie vote shall be decided by a majority ballot of the members of the Governing Council, that is, the newly elected members and those continuing in office.

SECTION 4. The Governing Council by majority vote shall elect members to fill any vacancies occurring between annual meetings and each person so elected shall hold office until the vacancy is regularly filled at the next annual meeting.

ARTICLE IX

Officers

SECTION 1. The Governing Council shall elect from among its own number a President and Vice-President. These officers shall also

be respectively President and Vice-President of the American Institute of Real Estate Appraisers. The duties of these officers shall be such as usually pertain to their respective offices.

SECTION 2. The chief executive officer of the Institute, shall, by virtue of his office, become a member of the Board of Directors of the National Association of Real Estate Boards.

SECTION 3. The Secretary and the Treasurer of the National Association of Real Estate Boards shall be the Secretary and Treasurer respectively of the American Institute of Real Estate Appraisers. All funds of the Institute, including any special funds contributed to it by its members or others, shall be deposited in the treasury of the National Association of Real Estate Boards by the Treasurer and shall be segregated for the use of the Institute. The Treasurer shall make due accounting to the Governing Council of the Institute at least once each year.

ARTICLE X

Fiscal and Elective Years

SECTION 1. The fiscal year and elective year of the American Institute of Real Estate Appraisers shall conform to those of the National Association of Real Estate Boards.

ARTICLE XI

Standing Committees

SECTION 1. The standing committees shall be as follows: Executive Committee, Admission Committee, Local Chapters Committee, Membership Committee, Legislative Committee, Publicity Committee, Appraisal Procedure Committee, Statistical Committee, Disciplinary Committee, Program Committee.

SECTION 2. Appointment and Duties.

a. Appointment. Each of the above committees shall consist of two or more Members of the Institute, except as otherwise herein provided. They shall be annually appointed by the President by and with the consent of the Governing Council.

b. Duties. The duties of these committees shall be defined by the instructions they shall from time to time receive from the President of the Governing Council.

ARTICLE XII

Special Committees

SECTION 1. Special committees may be appointed by the President, subject to the approval of the Governing Council, to perform such services as may be assigned to them.

ARTICLE XIII

Local Chapters

SECTION 1. For the purpose of affording its members better opportunities for close cooperation, discussion of various phases of real estate appraising, and local control, the Governing Council of the American Institute of Real Estate Appraisers may under such rules and regulations as it may adopt establish such local chapters as may be deemed advisable or necessary. These local chapters shall be known as "Chapters of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" and shall each be given an identifying number in the order of their establishment.

SECTION 2. Upon the application of not less than fifteen Members in good standing, the Governing Council may grant authority for the establishment of local chapters with limits defined geographically by the Governing Council, such authority to continue at the pleasure of the Governing Council and to be revocable by the Council under such rules as to quorum and vote as are elsewhere set forth for the expulsion of a Member. Such local chapters shall always have not less than fifteen resident Members in order to maintain the continuity of their existence. The Governing Council may, however, at its discretion grant a special dispensation for permitting the formation of a chapter with a membership below the minimum number established in the By-Laws.

SECTION 3. These chapters shall have the right to elect a Chairman and other officers and committees and to assess dues necessary for their proper functioning. The actions of such local chapters shall at all times be subject to the approval of the Governing Council of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards and shall at all times remain subject to the Constitution and By-Laws of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards. Local chapters may not speak for the Institute without prior specific authorization from the Governing Council.

ARTICLE XIV

Meetings and Quorums

SECTION 1. The annual meeting of the American Institute of Real Estate Appraisers shall be held at the same time and place as the annual meeting of the National Associa-

tion of Real Estate Boards. Other meetings may be called by the Governing Council of the Institute from time to time.

SECTION 2. All meetings of the Institute shall be open to all members of the National Association of Real Estate Boards, provided, however, that only Members and Affiliates duly enrolled in the Institute shall be entitled to the privileges of the floor, to participate in the discussions, and only Members to vote or to hold office.

SECTION 3. Those Members present after due notice of not less than two weeks prior thereto shall constitute a quorum for any annual meeting.

SECTION 4. A quorum for any special meeting shall consist of 60 per cent of the Members in good standing when present either in person or by proxy. All Members are to be notified by mail sent out at least two weeks prior to the date of any special meeting of any decisions to be made at the meeting. Any decisions made at a special meeting without such prior notice shall not be final until confirmed at the next annual meeting or at a subsequent special meeting following due notice of the action to be considered.

ARTICLE XV

Limitation of Liability

SECTION 1. The National Association of Real Estate Boards shall not assume any liability for expenditures or commitments of the American Institute of Real Estate Appraisers unless such expenditures or commitments shall first have been approved by the Board of Directors of the National Association of Real Estate Boards.

ARTICLE XVI

Territorial Appraisal Limitations

SECTION 1. Appraisals made by a Member of this Institute outside of his own Board city or metropolitan area for the purpose of selling a bond issue to the general public shall be made in conjunction with a fellow Member of the Board city or metropolitan area where the property to be appraised is situate; provided, however, that there is such an Institute Member in such city or metropolitan area.

ARTICLE XVII

Amendments

SECTION 1. These By-Laws may be amended by the Governing Council of the American Institute of Real Estate Appraisers by a two-thirds vote of the Members present, provided thirty days' notice in advance shall have been given to all Members of the intention to amend, together with a written copy of the proposed amendments, and provided further that such amendments be approved by the Board of Directors of the National Association of Real Estate Boards before they become effective.

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Current Articles

"What Is the Value Today of an Industrial Property?" F. H. PROUTY. N. R. E. J. September, 1932, p. 37. $1.20.

"Aims and Purpose of the American Institute of Real Estate Appraisers." P. W. KNISKERN. R. & B. G. July 30, 1932, p. 3. $ .70.

"All That Real Estate Wealth—Must and Shall Be Preserved Through Proper Conceptions of Appraisal." L. C. HOROWITZ. B. I. March, 1932, p. 25. $ .70.

"American Institute of Architects Proposes Floor Area Document." R. & B. G. October 29, 1932, p. 9. $ .50.

"Analysis of Changes Made in Manhattan Assessed Valuations." J. D. SILVERHERZ. R. & B. G. October 29, 1932, p. 3. $ .70.

"Appraisal of a Service Station Site." D. D. SAYER, JR. C. R. E. M. October, 1932, p. 34. $ .45.

"Appraising Farm Lands." O. O. REED. N. R. E. J. October, 1932, p. 55. $1.20.

"The Basis of Prosperity." EARLE SHULTZ. S. M. July, 1932, p. 6. $ .45.

"Can We Lighten the Interest Burden?" B. & B. M. September, 1932, p. 29. $ .70.

"Farm Real Estate Values Decrease Nearly 100% Since 1920." N. R. E. J. September, 1932, p. 60. $1.20.

"A Forum For Appraisal Discussion: The Journal of the American Institute of Real Estate Appraisers." R. & B. G. September 10, 1932, p. 6. $ .70.

"How Many Stores Are Needed?" ROBERT KINGERY. R. E. September 3, 1932, p. 12. $ .30.

"New Influence on New York City Values." A. N. GITTERMAN. R. & B. G. September 17, 1932, p. 6. $ .70.

"October Survey of Rental Conditions Reveals 23.76% Average Vacancy." M. E. RANDELL and G. W. KLEIN. S. M. November, 1932, p. 10. $ .45.

"Old Man Obsolescence Tamed." H. S. CUTMORE and W. R. KUEHNLE. R. E. September 10, 1932, p. 17. $ .30.

"Population Per Store." N. R. E. J. October, 1932, p. 38. $1.20.

"Relation of Construction to Apartment Occupancy." P. A. STONE. R. & B. G. October 29, 1932, p. 8. $ .70.

"Relation of Population to Apartments." P. A. STONE. R. & B. G. October 15, 1932, p. 5. $ .70.

"What Is Technocracy?" W. W. PARRISH. N. O. November, 1932, p. 13. $ .45.

"Significant Changes In the Trends of Population." B. & B. M. October, 1932, p. 38. $ .70.

"Square Foot Measure of Apartment Rentals." A. B. KISSACK. R. & B. G. September 17, 1932, p. 3. $ .70.

"That Intangible Corner Lot Value." W. R. KUEHNLE. R. E. August 20, 1932, p. 15. $ .30.

"This Opportunity. A Check List of Construction Costs for Typical Investment Buildings." A. E. BEALS. B. I. March, 1932, p. 32. $ .70.

"Today's Price Is Not Real Value." G. W. SPRINGER. R. E. October 15, 1932, p. 9. $ .30.

"Utility Rate-making In the Depression." J. C. SWIDLER. J. L. E. November, 1932, p. 347. $1.45.

"Valuation of Real Estate for Tax Purposes." H. E. GILBERT. N. R. E. J. October, 1932, p. 32. $1.20.

The full names of the magazines indicated by initials on these pages are given below:

A. F.	**Architectural Forum**	Monthly	$ 7.00
B. & B. M.	**Buildings and Building Management**	Monthly	3.00
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Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 59 East Van Buren St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed with the National Association.

Book Reviews

Sakolski, A. M. THE GREAT AMERICAN LAND BUBBLE. New York: Harper & Brothers, 1932. 385 p. $3.50.

This volume is the first history ever written on land speculation in the United States, probably because land speculation has always been looked upon as a dubious venture to be conducted secretly. Since a large percentage of the early land deals were made without records of any kind, it has required considerable research and patience on the part of the author to unravel the questionable land transactions of the dim and distant past.

Commencing with the pre-revolutionary period, the author has systematically covered each new development in the history of "land grabbing". The Ohio Land Lure, the Georgia "Yazoo" Land Frauds and the Louisiana Purchase were all speculations of the wildest nature, bringing fortunes to a few far-sighted individuals but more often causing bitter failures, disgrace, imprisonment and in some instances — suicide.

Speculation fever reached a new height during the wholesale parceling of New York State at the beginning of the 19th century. Land deals were made without surveys or even a knowledge of boundary limits, and deeds were seldom filed. The outstanding figure of this period was John Jacob Astor, whose shrewdness far exceeded that of his contemporaries, and enabled him to build a fortune in real estate, which still supports his descendants in comparative luxury.

The call of the southwest wilderness in 1820 caused an epidemic of "Texas Fever" and later the California boom. It is interesting to note that although the discovery of gold was responsible for opening up the latter territory more fortunes were made in California land than in gold mining. Railroad land jobbery, resulting eventually in the linking of east and west, the development of "Main Streets" and "Broadways", and a detailed account of the Florida boom brings the glamorous history of speculation up to the present.

The eternal desire for land, which began almost as soon as Columbus set foot in America and has continued up to the immediate present, might best be characterized by a new version of a famous quotation in which the author presents Patrick Henry as declaring — "Give me liberty or give me death" — (and then under his breath) — "let me have western lands." Carlton Schultz.

For the benefit of members who are interested in amplifying their libraries with available, as well as with current books, these Book Reviews, for the time being, will include books already published as well as recent issues.

Volumes mentioned here may be purchased at the list price through the Book Department of the National Association of Real Estate Boards. —Editor.

Skrimshire, Samuel. VALUATIONS. New York: Spon & Chamberlain, 1915. 463 p. $5.00.

Valuations, by Samuel Skrimshire, F. S. I., is a text book of some 450 pages devoted to the profession of real estate appraising as practiced in England. It is replete with definitions of real estate terms; explains the formation and use of valuation tables; works out detailed examples of valuations; shows the effect of various statutes on valuations; discusses assessments for "Rating Purposes"; in fact it goes into such detail that anyone acquainted with the real estate business in England should be able to become an appraiser by conscientiously following its instructions.

The writer doubts, however, that its use could serve any practical purpose for an appraiser working in the United States, beyond that of adding to his general education. Chapter I, entitled "The Knowledge Which The Valuer Should Possess", is general in its treatment and its observations apply with equal force to appraisers in this country and in England. Beyond that, with the possible exception of the chapter on "Valuation for Mortgage", the teachings of the book are not applicable to American practice. Few Realtors in this country know the meaning of Accommodation Land, Head Rent, Peppercorn Rent, Rack Rent, Net Annual Value, Fine Arbitrary, Fine Certain, Heriot, Forfeiture, etc.; yet the significance of these terms must be thoroughly understood in order to follow the subsequent discussion.

All examples of appraisals are, of course, worked out in the English system of currency. The writer had never fully appreciated the superiority of the American Decimal system of money, until he tried to wade through the maze of pounds, shillings, and pence.

Cuthbert E. Reeves.

Bartholomew, Harland. URBAN LAND USES. Cambridge: Harvard University Press, 1932. (City Planning Studies, vol. VI.) 174 p. $3.50.

Urban Land Uses by Harland Bartholomew, city planner, is based on a series of zoning studies made in 16 American cities, the largest being Louisville, Ky., (307,808), and the smallest Troy, O. (8,697). The author claims his deductions apply to 99% of incorporated cities in the U. S. Extensive mathematical studies were made in each city, dealing with the use of urban land for single family, multiple dwelling, commercial, and industrial purposes. Vacant areas are also studied. The book is thought provocative to appraisers, though somewhat limited in scope as to areas analyzed.

After discussing the general subject of city growth, the author proceeds to analyze the extent of occupancy of land by single dwellings, which use 74.2% of the cities noted, with 6.82 buildings per acre. He claims between 70% and 80% of the area of the average city will be given over to single occupancy use. Discussing two family buildings, the surveys show that the average square feet of lot used for such structures is 5,519, 4.28% of total area being thus employed. For multiple dwellings, including flats and apartments, he claims 2.23% used of the total area, on which are buildings housing 5.22% of the population of the cities studied.

To appraisal students the studies of business property are the most interesting, by far. The area so used was found to be 4.92% with 2.29 stores to each 100 persons. Lineal feet of individual store frontage was 35.7 feet, the number of stores per acre being 9.5 and the percentage of privately developed area occupied by commerce was 2.56%. He decidedly affirms that "the area required for commercial use in any self contained city is decidedly and definitely limited"; that all major thoroughfare frontage is not adaptable for commercial development, and that there must be radically new and scientific changes made in city planning and zoning if property owners are to survive and ever secure a return on any part of their business property investments. He also vigorously affirms that American cities have zoned many times too many business lots for current and future needs. The volume contains a large amount of statistical studies, maps and graphs, and, as the author says, forms a valuable basis and direction for future study of urban zoning practices.

Stanley L. McMichael.

Zangerle, John A. PRINCIPLES OF REAL ESTATE APPRAISING. McMichael Pub. Co., 1927. Second edition. 448 p. $5.00.

The author of this book for over two decades has been the official appraiser for Cuyahoga County, of which Cleveland is the County Seat. It is an exposition of the mass system of appraising used for tax purposes as distinguished from the making of individual appraisals. Minute analytical studies of single properties however are used as the basis for the rules followed in appraising the property in this County. Mr. Zangerle's system has been followed by several cities in the country and his studies are considered authoritative.

In this second edition Mr. Zangerle has treated at great length the following subjects: Plottage value, effect of auto transportation, store rental capitalization, corner lot appraisals, rate of capitalization, rent in relation to gross sales, effect of re-appraisal leases on land values, the capitalization of 99-year lease rentals, depreciation and appreciation. A long comprehensive chapter is also included on "Legal Decisions Regarding Appraisals". Mr. Zangerle was formerly a practicing attorney and has collected decisions of much value to lawyers and Realtors engaged in litigation. Twenty-four chapters are devoted entirely to the appraising of land and seven to the appraising of buildings.

The first edition was published in 1917 and about 25,000 copies were distributed. It was reprinted in 1920 and was followed by a field size in 1921. In 1924 another edition appeared which forms the basis of the present publication. Several new chapters have been added including "Unscientific Bond Issue Appraisals," in which attention is drawn to serious dangers besetting the issuing of bonds on properties the known value of which is debatable. Cost data in the chapter on building appraisals is as of the summer of 1927. The appendix contains valuable forms and the book is well illustrated with photos and diagrams.

C. M. Jones.

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